Arkansas Development Finance Authority

HomeToOwn

Program Guide

Adopted by the Board of Directors
July 17, 2003

EQUAL HOUSING OPPORTUNITY

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Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 1 - INTRODUCTION

A. About the Program Guide

~~A. The Arkansas Development Finance Authority~~

The Arkansas Development Finance Authority ("ADFA" or the "Authority") has developed this HomeToOwn Program Guide (the "Program Guide") for the use and benefit of any and all parties having an interest in the HomeToOwn Program (the "Single Family Program" or the "Program"). However, we have attempted to target the materials in the Program Guide to the Mortgage Lenders (as defined in Chapter 1, Section G) in order to aid and assist them in complying with the terms and conditions required for participation in the Single Family Program. Mortgage Lenders should familiarize themselves with each and every obligation set out in the Program Guide - the requirements discussed herein are mandatory and the failure of a Mortgage Lender to adhere to the Single Family Program requirements may lead to the termination of such Mortgage Lender's participation in the Single Family Program, as well as triggering possible claims for damages from other parties having a role or an interest in the Program. The terms and conditions set forth in this Program Guide are specifically incorporated by reference into each Mortgage Lender's "Mortgage Origination Agreement" by and among ADFA, the Master Servicer (as defined in Chapter 1, Section G) and the Mortgage Lender.

~~was created by Act 1062 of 1985, the Arkansas Development Finance Authority Act. This act abolished the former Arkansas Housing Development Agency, whose purpose was to develop safe, decent, sanitary and affordable housing for low and moderate income Arkansans, and transferred all records, funds, property, obligations, debts, functions, powers and duties to ADFA. This newly created Authority was empowered to issue tax-exempt bonds and other debt instruments for housing, manufacturing, export finance, small business, agricultural business enterprises, education, health care, municipalities and infrastructure projects.~~

~~The State of Arkansas is not obligated to pay the bonds and other debt instruments of the Authority, and neither the faith and credit nor the taxing power of the state of Arkansas is pledged to the payment of the principal or redemption of interest on the bonds and other debt instruments.~~

~~B. The HomeToOwn Program~~

~~The HomeToOwn Program, formally known as the Mortgage Revenue Bond Program ("MRB"), a mainstay of the Authority since its formation, is designed to provide low-cost homebuyer financing for the low- to moderate-income citizens of Arkansas. As a means of providing improved delivery to the marketplace of the low-cost loans, ADFA is pleased to provide a "continuous funding" program. What this means to you is that we will always have funds available. This will eliminate the peak periods of high demand and the rapid depletion of funds. By simplifying the procedure, we hope that you will soon realize that we are offering you an improved product for your customers that you can happily recommend.~~

~~C. Mortgage Revenue Bonds~~

~~Under the Single Family Program, ADFA accomplishes its public purpose primarily by selling tax-exempt mortgage revenue bonds in the municipal bond market. The interest that bond holders receive is generally exempt from both federal and Arkansas state income taxes. Because of this feature, investors are willing to accept a lower interest rate. This lower cost of borrowing enables us to provide financing to borrowers at a rate lower than the prevailing market rate. Bond proceedsare used to purchase qualified mortgage loans from participating lenders.~~

~~Federal tax law places restrictions on (a) the type and value of property that can qualify; and (b) the persons who may qualify. This guide will explain these various restrictions in later chapters. As an issuer of tax-exempt bond financing, we must make a good faith effort to ensure that all loans comply with the guidelines. This is accomplished by you~~

~~and the ADFA staff. We want you to thoroughly review all documents, tax returns, etc., before you submit the loan.~~

~~The consequences of accepting a loan that does not comply with tax regulations would be catastrophic to the Authority. The bonds sold could become taxable, with interest and penalties, retroactive to the date of bond sale. Thus, it is imperative that we make sure that loans are made only to eligible borrowers purchasing qualified dwellings.~~

~~D. Servicing of MRB Program Loans~~

~~We are currently utilizing a Master Servicer to act as servicing agent andpurchase qualified loans from participating lenders. The Master Servicer is~~

~~The Leader Mortgage Company~~
~~1015 Euclid Avenue~~
~~Cleveland, OH 44115~~
~~TEL: 800-562-5165.~~

~~The Master Servicer will pay each participating lender a service release premium in an amount established by the Authority from time to time. The current service release premium will be posted at the ADFA website [when available].~~

~~For information concerning the submission of documents to the Master Servicer, see Section B of Chapter 5 of this Guide.~~

~~E. Terms of the Mortgage Loan~~

~~Currently, we offer 30-year, fixed-rate mortgages. The interest rate on the mortgages is typically 50-75 basis points below the prevailing "conventional" rate for similar term, fixed-rate mortgages. With the implementation of continuous funding, we will periodically adjustinterest rates on the mortgages. Remember, we want to eliminate peaks and valleys in the availability of funds. We will notify you in writing when rates are raised or lowered. Current rate and program information will be posted on our website [when available].~~

~~F. Definitions~~

~~The following words and phrases shall have the following meanings:~~

~~Acquisition Cost. The total cost of acquiring a qualified dwelling from the seller as a completed residential unit and more fully descried in Exhibit C-2-Mortgagor's Affidavit and Certification.~~

~~Affidavit of Buyer or Mortgagor's Certification. The affidavit in the forms prescribed by the Authority to be completed by persons applying for a mortgage loan.~~

~~Affidavit of Seller or Sellers' Certification. The affidavit in the forms prescribed by the Authority to be completed by the sellers of a residential housing unit to be acquired by a buyer using the proceeds of an ADFA mortgage loan.~~

~~Annual Family Income. For purposes of determining the qualifications of Mortgagors under the income limitations of the Program, the current family income of a potential Mortgagor determined pursuant to Exhibit C-1-Mortgage's Certification as to Income, and shall in any event include the current gross income of all persons who reside or intend to reside with such Mortgagor in the same dwelling unit (other than persons under age 18 who are not primarily or secondarily liable on the Mortgage), but exclusive of the income of any co-signer of a Mortgage Note who does not reside or intend to reside therein.~~

~~Condominium Unit. A multi-unit housing development (I) which has been subject to a recorded declaration pursuant to the Condominium Property Act, and (II) in which ownership of the units includes the ownership in fee of a specified residential unit together with an undivided pro rata interest in appurtenant real estate and any improvements thereon. A loan made on a condominium unit must be eligible for insurance by FHA, VA, USDA/RD, or the PMI insurer and FannieMae.~~

~~Eligible Borrower. A person:~~

~~a. who is or will be a resident of the state of Arkansas within sixty (60) days of the closing of the mortgage loan;~~

~~b. whose household income does not exceed the amount set forth by the Authority, which amount may be amended from time to time by ADFA;~~

~~c. who intends to occupy the qualified dwelling financed by the mortgage loan as his or her principal residence within sixty (60) days after the closing of the mortgage loan. A residence in which more than fifteen percent (15%) of the total area is expected to be used in a trade or business is NOT eligible!~~

~~First-Time Homebuyer. A mortgagor who has NOT had an ownership interest in his or her principal residence at any time during the three-year period ending on the date the mortgage is executed.~~

~~Household Income. The total annual gross income of the borrowers and all other persons who reside or intend to reside with such borrower in the same dwelling unit (other than persons under age 18 who are not primarily or secondarily liable on the mortgage loan). All sources of income must be counted.~~

~~Interest Rate. The rate of interest specified by the Authority.~~

~~Lender. The bank, savings and loan association, credit union or mortgage banker signatory to the Master Agreement.~~

~~Lender's Delivery Obligation. The lender's agreement to make, deliver, and sell qualified mortgage loans to the Authority pursuant to the Authority's agreement to purchase mortgage loans under the Agreements.~~

~~Master Servicer. As defined in Part D of Chapter 1.~~

~~Mortgage. The written mortgage or deed of trust instrument creating a first mortgage lien on a fee interest in real property located within the State. It shall be in the then-effective form required by the loan insurer. It may include appropriate riders and such modifications as may be required.~~

~~Mortgage Loan. A loan made by the lender to an eligible borrower for the purchase of a qualified dwelling and secured by a mortgage on such real estate.~~

~~New Construction. A residential housing unit which has not previously been occupied.~~

~~Note. The written document executed to evidence the mortgagor's obligation to repay the mortgage loan, with such riders or modifications as may be required and it shall be the then-effective form of the mortgage note required by the loan insurer.~~

~~Prepayment. Any monies, however derived, which are received or recovered by the Authority from any payment of, or with respect to, principal on any mortgage loan prior to scheduled payments of principal called for by such mortgage loan; provided however, that no monies received or recovered by the Authority from the repurchase of a mortgage loan by a lender pursuant to the Master Agreement must be a prepayment.~~

~~Private Mortgage Insurance. Insurance coverage paid for by the eligible borrower which insures the Authority against losses with respect to defaults on a mortgage loan according to the terms of the insurance policy.~~

~~Program. The Authority's Single Family Mortgage Purchase Program.~~

~~Property Value. The lesser of the Acquisition Cost or the appraised value of the qualified dwelling at the time of origination of the mortgage loan.~~

~~Qualified Census Tract. Those areas within the State constituting targeted areas more fully described in Exhibit E.~~

~~Qualified Duplex. A residence consisting of two (2) attached single family units, one of which will be occupied by the mortgagor as his or her principal residence within 60 days of the loan closing and was first occupied as a residence is at least five (5) before the mortgage therefor is executed. Newly constructed duplexes are not eligible.~~

~~Qualified Dwelling or Single Family Residence. A private detached or attached house, rowhouse, townhouse, or condominium unit which:~~

~~a. contains complete living facilities;~~
~~b.is located within the State;~~
~~c. is designed and intended primarily for residential housing (not more than 15% of the total area of which can be used in a trade or business);~~
~~d. which is determined by a qualified appraisal to have an expected useful life of not less than the loan insurer's requirement for a 30-year loan;~~
~~e. will be occupied by the buyer as his or her principal residence within 60 days of loan closing;~~
~~f. is permanently affixed to land; and~~
~~g. the purchase price does not exceed the maximum purchase price as set by the Authority;~~

~~QUALIFIED DWELLING DOES NOT INCLUDE:~~

- ~~Rental houses~~
- ~~Vacation homes~~
- ~~Factory-made housing that is not permanently affixed to land~~
- ~~Stock or any other ownership interest in a cooperative housing corporation or organization~~
- ~~Property, such as appliances or furniture, that is not a fixture under applicable law~~
- ~~Land that is not necessary to maintain basic livability of a residence or which provides, other than incidentally, a source of income to the mortgagor.~~

~~Servicer. The party designated as such from time to time by ADFA.~~

~~Standard Residential Purchase Contract. A contract to purchase residential property, but not an Installment Agreement for Deed, Articles of Agreement for Deed, Land Sales Contract or any other form of ownership or financing that allows a purchaser to enjoy the benefits of ownership without title to the property.~~

~~State. The State of Arkansas.~~

~~Targeted Area. An area within the State which is both (a) listed as a qualified census tract or "area of chronic economic distress" designated and approved by the **Tax Code** and (b) currently listed by the Authority as a qualified Targeted Area. The current list of Targeted Areas is contained in Exhibit E.~~

~~Tax Code. The United States Internal Revenue Code of 1986, as amended.~~

~~CHAPTER 2 - HOW THE PROCESS WORKS~~

~~A. Taking Loan Applications~~

~~You may accept applications on residences located anywhere within the State. If after the program starts your institution opens additional loan origination branches, send or fax a letter to ADFA listing the name, address, telephone and contact person.~~

1. ~~Date of Sales Contract or Application. Since we have moved to continuous funding, we should always be able to offer loan proceeds. You will no longer have to restrict the date of the contract or explain the date the loan application was taken.~~

2. ~~Pre-Screening Applicants. We request that prior to taking a loan application for an ADFA loan you take a few minutes to pre-screen the borrowers. Ask such questions as:~~

    a. ~~Are you a first time buyer?~~
    b. ~~Is the co-borrower a first time buyer?~~
    c. ~~Is your spouse a first time buyer even though he or she may choose not to be liable on the Note?~~
    d. ~~How would you honestly describe your credit history?~~

~~If you are satisfied with the answers and think you have a legitimate candidate for the Program, then take the application and proceed.~~

~~B. Reservation Process~~

~~The next step is to reserve program funds for your borrower. In order to reserve funds, you need only access our web page at:~~

~~**https://www.adfaweb.adfa.state.ar.us/logon.htm**~~

~~OR fax your reservation forms to 501-682-5480 if you are not yet utilizing the fast and efficient Internet. DO NOT FAX AN APPLICATION IF YOU HAVE ALREADY ENTERED THE APPLICATION ONLINE THROUGH THE INTERNET.~~

~~Prior to making a reservation request, the lender should have in hand the following information:~~

1. ~~**LOAN APPLICATION** (**Signed and Dated** by Borrower, Co-Borrower & Lender)~~

2. ~~**CREDIT REPORT** (Standard report from a credit reporting bureau or merged-in file with three repositories)~~
3. ~~**OFFER & ACCEPTANCE** (**Signed and Dated** by **ALL** parties)~~

4. ~~**CONSTRUCTION/HOME BUILDER CONTRACT** (**Signed and Dated** by Borrower(s) & Home Builder)~~

5. ~~**ITEMIZED ACQUISITION COST LETTER** - (If Borrower(s) Building Own House)~~

6. ~~For **FHA 203(k)** Loans, copies of **Signed** Contractor Bids to rehabilitate property. If unavailable at time of Loan Application, we will accept **Signed** letter from Lender stating approximate cost of rehabilitation.~~

7. ~~**ORIGINAL EXHIBIT X-1 - NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX** ((**Signed and Dated** by Borrower(s)).~~

~~A $100 reservation fee must be collected on all loans—including new construction—to be credited at closing. Please be sure that all documents are executed by all parties involved.~~

~~The loan reservation system is open from 8:00 a.m. to 5:00 p.m., Monday through Friday, except for state-observed holidays. Faxes are accepted 24 hours a day; however, any fax received after business hours will be keyed into the system the next business day.~~

~~When using either the Internet or fax to reserve funds for a loan, please be sure that you have filled in all blanks on the reservation request form.~~

~~At time of reservation, you will be assigned a loan tracking number. This is very important. Put the tracking number on all documentation throughout your file. Refer to it every time you send us a fax, a letter or other documentation. If you don't, we won't be able to respond in a prompt manner because we will be conducting computer searches to identify the file and its underwriter. If you are utilizing our downpayment assistance program, you will also reserve those funds at this point.~~

~~If you utilize the fax to reserve funds, an ADFA staff member must enter the reservation for you. You will be notified of your tracking number. Please review the information upon receipt and notify us immediately if anything changes! Include this information in your file to ADFA. Keep in mind that you have 60 days to review the file, assemble the ADFA package and send it to us. WE ARE NOT OBLIGATED TO HONOR THE RESERVATION AFTER THE 60 DAYS HAVE EXPIRED.~~

~~Note: At the time the reservation is made the interest rate is LOCKED regardless of future rate changes.~~

~~Please keep in mind that once you've received a tracking number, you're telling us you're pretty much ready to go with that borrower and loan. So, please don't ask to transfer the property, substitute another borrower, or transfer the loan to another lender. We realize there might be an occasion or two that you need to us to consider these types of requests, but know that we will ask for a written explanation from the loan officer.~~

~~C. Changes to Loan Amounts, Cancellations~~

~~All changes in loan amounts must be requested by fax using form Exhibit V-2. It is very important that you do not ship a loan to the master servicer without notifying us of any changes in loan amounts. Please don't call.~~

~~If you need to cancel a loan, please do so within three (3) business days upon the decision that the loan will not qualify. We have provided a form, Exhibit V-1-Cancellation of Reservation Form, specifically for this purpose. We will accept a copy of your notice of adverse action as long as it contains all of the information outlined in our Exhibit V-1.~~

~~Canceled loan files will be warehoused at ADFA for a minimum of 30 days from cancellation and will be destroyed unless we hear from you that you want the file returned. If ADFA denies the file, it will be automatically returned to you.~~

~~D. Compliance Approval~~

~~You underwrite the loan for credit. Upon your institution's conditional approval, you send the complete file to ADFA, as outlined on the checklist provided in Exhibit H-1. We urge you to submit a completed package, as incomplete packages impede the approval~~

~~process. Failure to submit the required documentation may result in the deletion of your loan from the reservation system.~~

~~Tax code compliance issues are addressed more comprehensively in Chapter 4 of this Program Guide.~~

~~E. Closing-Purchase/Sale~~

~~Once ADFA approves the loan for compliance and issues on Form H-2, you may schedule the closing. You will close the loan, send the appropriate documents for recording and deliver the appropriate documents to ADFA. Closing of the loan must occur no later than one hundred eighty (180) days after the loan reservation date. You must submit the closing documents to ADFA within 30 days of closing. If no other documentation is needed, we will sign the Exhibit L and fax a copy to you. You must attach a signed copy of the Exhibit L to the closing documents submitted to the Master Servicer. The Master Servicer is not obligated to purchase any loan if the file takes longer than 30 days to be delivered.~~

~~Closing issues are addressed more comprehensively in Chapter 5 of this Program Guide.~~

~~F. Trailing Documents~~

~~The final step in the process is delivering the original recorded mortgage, assignment and final Title Policy. You are required to deliver these documents as soon as you receive them. We have established a maximum of 180 days from the date of closing to get your documents recorded and delivered. ADFA or the master servicer may require you to repurchase the loan for failure to meet the 180 day time frame.~~

~~G. Program Fees~~

~~The mortgage lender may, at the appropriate processing stage, collect the following fees:~~

1. ~~All reasonable and customary out-of-pocket costs permitted by law to be paid or incurred by the mortgage lender, including but not limited to, notary fees, settlement fees, hazard or mortgage insurance premiums, appraisal fees, attorneys fees, documentary revenue stamps, recording fees and charges, credit report fees, flood zone determination fee, and escrow fees. Such fees and expenses may be collected only once in connection with the origination of the mortgage loan and shall not exceed limits established from time to time by federal and state law and in any event may not exceed similar amounts charged in such area in cases where owner financing is not provided through tax-exempt revenue bonds. For FHA 203(k) loans, you may collect the customary HUD-allowed fees for appraisals, inspections and review fees. All charges must conform with the guidelines o the appropriate loan insuring agency.~~

~~2. All Appraisal fees shall comply with the guidelines of the loan insuring agency.~~

~~3. Amounts that must be prepaid by borrower or seller for taxes, assessments, hazard insurance premiums and other similar recurring charges. Deposits paid by borrower or seller to a reserve or escrow account for taxes, assessments, hazard insurance premiums and other similar recurring charges.~~

~~4. A lock-in deposit not to exceed $100 must be collected for each loan by the originating lender from borrower or seller at time of loan application. Such fee must be credited at loan closing. This fee is generally non-refundable except in circumstances, including but not limited to, borrower is denied because of job or credit; property does not qualify; borrower does not meet the tax regulations or ADFA program guidelines; or seller declines the sale. Please call if you have any questions.~~

~~5. A origination fee to the mortgage lender to be paid by the borrower or seller, not to exceed one percent (1%) of the amount of the mortgage loan. Follow HUD guidelines for FHA 203(k) loans.~~

~~6. A commitment fee paid by the borrower or seller at loan settlement of one percent (1%) of the mortgage loan amount. This fee must be remitted to ADFA within thirty (30) business days of loan closing.~~

~~7. A tax service fee of $65.00 must be collected from the seller. This amount will be netted at purchase by the Master Servicer.~~

~~8. A bond program transfer fee of $90 must be collected from the seller. This amount will be netted at purchase by the Master Servicer.~~

~~9. ADFA will charge each originating lender $25.00 for every loan reservation accepted by ADFA. Each lender will be billed monthly. The fee is non-refundable and cannot be paid by the borrower.~~

~~YOU MAY NOT COLLECT ANY ADDITIONAL FEES FROM EITHER THE BORROWER OR SELLER. DO NOT COLLECT UNDERWRITING FEES, ADMINISTRATION FEES, LENDER'S DOCUMENT PREPARATION FEES, OR LENDER'S COMMITMENT FEES.~~

~~The principal amount of the mortgage loan will not exceed the applicable loan-to-value limits as established by Housing and Urban Development, USDA Rural Development, Veterans Administration, or FannieMae. The financing of allowable closing costs is acceptable as permitted by the loan insuring agency.~~

~~CHAPTER 3 - DOWNPAYMENT ASSISTANCE~~

~~ADFA is pleased to be able to provide downpayment and closing cost assistance to those who qualify for it. The amount of assistance available ranges from $1,000 up to a maximum of $3,000. All downpayment assistance second mortgage loans must be issued in conjunction with a mortgage revenue bond first mortgage loan. Please note that the funds are a loan and~~

~~not a grant. ADFA no longer offers downpayment and closing cost assistance in the form of a grant.~~

~~The proceeds of the second mortgage can only be used for certain items. Of course, funds may be used for a borrower's downpayment and closing costs. There is no "cash back" to the borrower at closing. If the amounts of the first and second mortgages exceed the amounts required at closing, the first mortgage amount must be reduced. We urge you to calculate your loan amounts as accurately as possible to save everyone the hassle of reducing the principal balance at closing. It is also important to calculate the loan amounts accurately, because in most cases, the reduction of principal costs the borrower extra money! Origination fees and other fees based on a percentage of the loan amount would have already been incurred. Reducing the principal balance doesn't allow the borrower to recoup any of these fees, nor does it reduce the monthly payment amount. So do everybody a favor and keep your loan amounts accurate!~~

~~The loan term is based on a 10-year amortization. It is due on sale, transfer, other disposition of the property (including any involuntary transfer by or as a result of foreclosure or judicial sale or operation of law), refinance or other satisfaction of the first mortgage loan.~~

~~The interest rate on the downpayment assistance second mortgages will be posted at the ADFA website [when available]. We will notify you in writing when rates are raised and lowered.~~

~~Here are some other requirements for downpayment assistance financing:~~

1. ~~Homebuyer Education. All borrowers are required to complete a homebuyer education course taught by ADFA-approved homebuyer counseling agency. A copy of the certificate that is issued at the end of the course must be included in the loan file. All persons that will be signing the note are required to take the course! The cost of counseling may be paid from proceeds of the secondary loan.~~

2. ~~Minimum Cash Investment. For conventional loans, follow the conventional guidelines, or generally, a minimum downpayment of three percent from their own funds. For government loans, it's a little more complicated.~~

   ~~Borrowers will be required to invest one percent (1%) of the total sales price of the home or $500.00, whichever is greater. This change applies to all income levels, so there will no longer be a need to consider the borrower's median income. IN NO INSTANCE SHALL THE REQUIRED DOWNPAYMENT FALL BELOW $500.~~

3. ~~Maximum CLTV or Cumulative Loan to Value.~~
   a. ~~FHA: The sum of all financing may not exceed 100% of the cost to acquire the property plus any prepaid expenses.~~
   b. ~~VA: The sum of all financing may not exceed 100% of the reasonable value of the property established by VA plus any closing costs and prepaids.~~

c. ~~Conventional: The sum of all financing cannot exceed 100% of the lower of the sales price or appraised value.~~

d. ~~Rural Development: Sum of financing cannot exceed 100% of appraised value.~~

4. ~~Allowable fees to participant lender. No commitment or origination fee will be charged for the downpayment assistance loan. The lender may collect and retain a $50 application fee for each DPA loan.~~

5. ~~Closing requirements~~

a. ~~Second mortgage must meet federal truth-in-lending disclosure requirements.~~

b. ~~A Notice to Mortgagor and Participant Lender Certification must be completed and included in the loan file for purchase.~~

c. ~~Second mortgage must be recorded in the official public records of the Authority such that it constitutes a valid second lien upon the property.~~

d. ~~Hazard insurance policy must show ADFA as an insured second mortgagee.~~

e. ~~Title insurance policy must reflect the second mortgage as a valid lien against the property subordinate to the first mortgage.~~

f. ~~Lender advances the funds and is reimbursed at the purchase by the master servicer.~~

6. ~~Servicing information.~~

a. ~~Second mortgage will be serviced by the master servicer.~~

b. ~~A single coupon booklet will be issued and the borrower will remit one check to cover both the first and second mortgage.~~

~~c.Assumptions are not allowed.~~

~~d.A second mortgage administration fee of $150 will be netted at purchase from the second mortgage funds reimbursed by the Master Servicer.~~

d. ~~There is no prepayment penalty.~~

e. ~~There is no recapture provision.~~

~~CHAPTER 4 - TAX CODE COMPLIANCE ISSUES~~

~~In discussing the documentation, you must understand that there are two separate but simultaneous reviews that will proceed: (1) Tax code compliance and (2) credit/real estate underwriting. The latter is what you presumably do every day. Tax code compliance review is unique to ADFA loans.~~

~~A. Tax Code Compliance Review~~

~~We will be looking for documentation to support and help us make three basic determinations:~~

~~a. Is the borrower a first-time buyer?~~
~~b. Is the borrower's total household income within the allowable limits for the county in which the property is located?~~
~~c. Is the residence a 'qualified dwelling' as defined by tax rules?~~

~~The documentation must be inclusive enough to satisfy IRS auditors.~~

~~**B. First-Time Homebuyer Requirements**~~

~~The borrower(s) must be a first-time homebuyer unless the residenceis located within a Targeted~~**B. The Arkansas Development Finance Authority**

ADFA was created by Act 1062 of 1985, the Arkansas Development Finance Authority Act. This act abolished the former Arkansas Housing Development Agency, whose purpose was to develop safe, decent, sanitary and affordable housing for low and moderate income Arkansans, and transferred all records, funds, property, obligations, debts, functions, powers and duties to ADFA. This newly created Authority was empowered to issue tax-exempt bonds and other debt instruments for housing, manufacturing, export finance, small business, agricultural business enterprises, education, health care, municipalities and infrastructure projects.

The State of Arkansas is not obligated to pay the Bonds (as defined in Chapter 1, Section G) and other debt instruments of the Authority, and neither the faith and credit nor the taxing power of the State of Arkansas is pledged to the payment of the principal or redemption of interest on the Bonds and other debt instruments.

C. The HomeToOwn Program

The HomeToOwn Program, formally known as the Mortgage Revenue Bond Program and referred to herein as the Single Family Program, has been a mainstay of the Authority since its formation and is designed to provide low-cost homebuyer financing for the low- to moderate-income citizens of Arkansas. As a means of providing improved delivery to the marketplace of low-cost Mortgage Loans (as defined in Chapter 1, Section G), ADFA is pleased to provide a "continuous funding" program. What this means to the Mortgage Lender is that ADFA will always have funds available. This will eliminate the peak periods of high demand and the rapid depletion of funds. By simplifying the procedure, the Authority hopes that Mortgage Lenders will soon realize that ADFA is offering an improved product for Eligible Borrowers (as defined in Chapter 1, Section G) that Mortgage Lenders can happily recommend.

D. Mortgage Revenue Bonds

Under the Single Family Program, ADFA accomplishes its public purpose primarily by selling Bonds in the municipal bond market. The interest that Bond holders receive is generally exempt from both Federal and Arkansas state income taxes. Because of this feature, investors are willing to accept a lower interest rate. This lower cost of borrowing enables ADFA to provide financing to Eligible Borrowers at a rate lower than the prevailing market rate. Bond proceeds ultimately are used to purchase Mortgage Loans from participating Mortgage Lenders.

Federal tax law places restrictions on (a) the type and value of property that may qualify; and (b) the persons who may qualify. This Program Guide will explain these various restrictions in later chapters. As an issuer of tax-exempt bond financing, ADFA must make a good faith effort to ensure that all Mortgage Loans comply with the guidelines. This is accomplished by the Mortgage Lenders and the ADFA staff. All Mortgage Lenders must thoroughly review all documents, tax returns, etc., before making any submission of the proposed Mortgage Loan to ADFA.

The consequences of ADFA's acceptance of a Mortgage Loan that does not comply with the Tax Code (as defined in Chapter 1, Section G) could be catastrophic to the Authority. The Bonds issued could become taxable, with interest and penalties, retroactive to the date of Bond sale. Thus, it is imperative that Mortgage Loans are made only to Eligible Borrowers purchasing Qualified Dwellings (all as defined in Chapter 1, Section G).

E. Servicing of Single Family Program Mortgage Loans

The Authority currently utilizes a master servicer to act as servicing agent and to purchase qualified Mortgage Loans from participating Mortgage Lenders. The master servicer (referred to in this Program Guide as the "Master Servicer" or the "Servicer") is:

The Leader Mortgage Company
1015 Euclid Avenue
Cleveland, Ohio 44115
Telephone: 800-562-5165

The Master Servicer will pay each participating Mortgage Lender a Servicing Release Fee (as defined in Chapter 1, Section G) in an amount established by the Authority from time to time. The current Servicing Release Fee will be posted at the ADFA website.

For information concerning the submission of documents to the Master Servicer, see Chapter 8 of this Program Guide.

F. Term of the Mortgage Loans

Currently, the Single Family Program features a 30-year, fixed-rate Mortgage Loan. The interest rate on qualified Mortgage Loans is typically 50-75 basis points below the prevailing "conventional" rate for similar term, fixed-rate mortgage loans. With the implementation of continuous funding, ADFA will periodically adjust the Mortgage Loan interest rate. Remember, we want to eliminate peaks and valleys in the availability of funds. ADFA will notify each Mortgage Lender via facsimile transmission, email transmission, or otherwise, in the event that the loan rate is raised or lowered; also, current loan rate and other Single Family Program information will be posted on the ADFA website.

G. Definitions

The following words and phrases shall have the following meanings:

Acquisition Cost means the total cost of acquiring a residence from a Seller as a completed residential unit and more fully described in Exhibit 5-B, Borrower's Application Affidavit and Certification. The meaning of Acquisition Cost is set forth in further detail in Chapter 2, Section C.1.c. of this Program Guide.

Affidavit of Seller shall have the same meaning as "Seller's Certificate," as defined below.

Annual Household Income means, for purposes of determining the qualifications of proposed borrowers under the income limitations of the Single Family Program, the current household income of a proposed borrower determined pursuant to Exhibit 5-A, Borrower's Certification as to Income, and shall in any event include the current gross income of all persons who reside or intend to reside with such borrower in the same residence (other than persons under age 18 who are not primarily or secondarily liable on the Mortgage Note), but exclusive of the income of any co-signer of a Mortgage Note who does not reside or intend to reside in the residence, as evidenced by documentation satisfactory to the Authority. The concept of Annual Household Income is further described in Chapter 2, Section B of the Program Guide.

Application Agreement means the "Application for ADFA Approved Mortgage Lender" which proposed mortgage lenders must submit to ADFA for approval prior to the execution of any Mortgage Origination Agreement.

Assignment of Mortgage Note and Mortgage/Deed of Trust means the instrument substantially in the form of Exhibit 7-O, completed and executed by the Mortgage Lender, in recordable form, and pursuant to which a Mortgage Lender assigns and delivers the related Mortgage and endorses the Mortgage Note to the Master Servicer in connection with the purchase of the related Mortgage Loan by the Master Servicer.

Average Area Purchase Price means the purchase price amounts, respectively, for (i) residences not previously occupied ("new residences") and (ii) residences previously occupied ("existing residences"), for the State as specified in Schedule II hereto or such other amounts as may from time to time be determined by the Authority or published by the United States Department of the Treasury as the average area purchase price for the State. An Average Area Purchase Price is not provided for new residences for three- and four-family homes because multi-unit dwellings, other than duplexes, may not be financed with the proceeds of the Bonds.

Bonds means any of the Authority's Home Mortgage Revenue Bonds authorized under the General Resolution and issued pursuant to a Home Mortgage Revenue Bond Series Resolution.

Builder means a person or firm regularly engaged in the construction of residential property within the State.

Business Day means any day other than a Saturday or Sunday or a day on which the principal trust office of the Trustee, Master Servicer or the banks in the City of New York are authorized to be open for regular business.

Buyer shall have the same meaning as borrower as used within this Program Guide.

Certificate of Compliance means the Authority's Certificate, substantially in the form of Exhibit 6-H, in which the Authority must certify to certain investigations made with respect to each Mortgage Loan approved for purchase by the Master Servicer. A Certificate of Compliance shall cover each Mortgage Loan and must be issued prior to Mortgage Loan Closing.

Closing and Closing Date mean the funding of the Mortgage Loan by the Mortgage Lender and the execution and delivery by the Borrower of all documents in connection therewith and the date on which such Closing occurs.

Commit or Commitment means a binding written commitment by the Mortgage Lender, in the form customarily used by the Mortgage Lender in its owner-occupied home lending practice or in a form customarily used in the mortgage lending industry, as may be specified by the Master Servicer, to a particular Eligible Borrower to finance the purchase of a particular Qualified Dwelling with a Mortgage Loan, which Commitment shall specify a stated expiration date, a stated principal amount and an interest rate equal to the Loan Rate.

Compliance Package or Preliminary Approval and Compliance Package means the documents listed in Exhibit 6-G.

Condominium Unit means a single family unit in a multi-unit housing development (i) which has been subject to a recorded declaration pursuant to the Condominium Property Act, and (ii) in which ownership of the units includes the ownership in fee of a specified residential unit together with an undivided pro rata interest in appurtenant real estate and any improvements thereon. A loan made on a condominium unit must be eligible for insurance by FHA, VA, USDARD, or the PMI insurer and Fannie Mae.

Cure Period shall mean the period of [thirty (30)] days from the earlier of the time the Mortgage Lender discovers a Defect or the Mortgage Lender receives notice of such Defect from the Authority or the Master Servicer.

Deed of Trust shall have the same meaning as the term "Mortgage", as set forth below.

Default means one or more of the following events:

a. Any representation or warranty of a Mortgage Lender to the Authority and the Master Servicer shall be false in any material respect;

b. Failure of a Mortgage Lender to duly observe or perform any other covenant, condition or agreement in the Mortgage Origination Agreement or the Program Guide to be observed or performed by such Mortgage Lender in any material respect for a period of thirty (30) days after a written notice to such Mortgage Lender from the Authority specifying such failure and requesting that it be remedied, *provided*, *however*, if the failure stated in the notice cannot be corrected within the applicable period, the party giving such notice shall consent to a reasonable extension of time if corrective action is instituted by the Mortgage Lender within the applicable period and diligently pursued until such failure or defect is fully corrected;

c. Requirement that the Master Servicer purchase a Mortgage Loan as a result of a failure of such Mortgage Lender to abide by the provisions of the Mortgage Origination Agreement and the Program Guide, and the failure of such Mortgage Lender to timely repurchase said Mortgage Loan upon receipt of proper notice;

d. Decree or order of a court, agency or supervisory authority having jurisdiction in the premises appointing a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceeding affecting the Mortgage Lender or substantially all of its properties, or for the winding-up or liquidation of its affairs, if such decree or order shall have remained in force undischarged or unstayed for a period of thirty (30) days;

e. Consent by the Mortgage Lender to the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshalling or assets and liabilities or similar proceeding affecting the Mortgage Lender or substantially all of its properties; or

f. Admission in writing by the Mortgage Lender of its inability to pay debts generally as they mature, or the filing of a petition to take advantage of any applicable bankruptcy or insolvency statute, or the making of an assignment for the benefit of creditors.

Defect or Defective shall mean a failure to cause any Mortgage Loan to comply with the terms of the Mortgage Origination Agreement or this Program Guide.

Discount Fee means the fee to be collected at closing by each Mortgage Lender and remitted to the Authority within [thirty (30)] days of each Closing Date in an amount equal to one percent (1%) of each Mortgage Loan.

Eligible Borrower means a person:

a. Who is or will be a resident of the state of Arkansas within sixty (60) days of the Closing of a Mortgage Loan;

b. Whose Annual Household Income does not exceed the amount set forth by the Authority, which amount may be amended from time to time by ADFA; and

c. Who intends to occupy the Qualified Dwelling financed by the Mortgage Loan as his or her principal residence within sixty (60) days after the Closing of the Mortgage Loan. Please see the definition of Qualified Dwelling and Chapter 2, Section C of the Program Guide for further information on the rules for determining whether a residence is a Qualified Dwelling.

Escrow Account means the account by that name created and maintained by the Mortgage Lender.

Fannie Mae means the Federal National Mortgage Association, or any successor thereto.

Fannie Mae Community Home Buyer's Program means the Community Home Buyer's Program described in the Pool Purchase Contract.

Fannie Mae Custodial Agreement means the Fannie Mae Form No. 2003 from a Custodian to Fannie Mae for the Program.

FDIC means the Federal Deposit Insurance Corporation, or any successor to its functions.

FHA means the Federal Housing Administration of the Department of Housing and Urban Development or any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.

FHA Insurance means FHA mortgage insurance issued under one of the following FHA Insurance programs pursuant to the National Housing Act: FHA Section 203(b), FHA Section 234(c), FHA Section 221(d)(2), FHA Section 203b\vet, FHA Section 203(k) and FHA Section 203(h) in applicable areas. ADFA encourages all participating Mortgage Lenders to disclose to potential Eligible Borrowers the availability of an energy saving home mortgage. This optional service may be obtained and financed with an FHA-insured loan.

First-Time Homebuyer means any borrower who has NOT had a present ownership interest in his or her principal residence at any time during the three-year period ending on the date of the Closing of the Mortgage Loan and the execution of the Mortgage related thereto. The meaning of First-Time Homebuyer is set forth in further detail in Chapter 2, Section A of this Program Guide.

Flood Insurance Policy means the insurance coverage provided under the National Flood Insurance Program authorized by 42 U.S.C. Sections 4001-4128.

General Resolution means the Home Mortgage Revenue Bond General Resolution of the Authority adopted June 20, 1995.

GNMA Custodial Agreement means the HUD Form 11215 from a Custodian to GNMA for the Program.

GNMA Commitment means a commitment to the Master Servicer from GNMA that GNMA will guarantee securities in the amounts stated in such commitment for a period of one year from the date of such commitment.

Government Obligations means direct obligations of the United States of America, or obligations the principal of which and interest on which are fully guaranteed by the United States of America.

HUD means the United States Department of Housing and Urban Development.

Loan Rate means the interest rate per annum with respect to the Mortgage Loans as specified by the Authority from time to time. The Loan Rate for each specific Mortgage Loan will be set at the time of loan reservation by the Mortgage Lender.

Master Servicer means The Leader Mortgage Company, its successors and assigns as servicer hereunder and under the Servicing Agreement, or any substitute or successor appointed pursuant to the Servicing Agreement.

Maximum Household Income Limit means the maximum permitted Annual Household Income of a borrower and anyone 18 years or older who resides in the Single Family Residence, determined pursuant to Chapter 2, Section B with reference to Schedules III and IV hereto and as such schedules may be modified from time to time by the Authority.

Maximum Purchase Price means the maximum Purchase Price permitted by the Single Family Program determined pursuant to Chapter 2, Section C with reference to Schedule II hereto and as such schedule may be modified by the Authority subject to the standards stated therein.

Mortgage means the written Mortgage or Deed of Trust instrument securing the related Mortgage Loan and encumbering a Single-Family Residence, which instrument shall be in the then-effective form required by FHA for FHA Insured Mortgage Loans, USDARD for USDARD Guaranteed Mortgage Loans, VA for VA Guaranteed Mortgage Loans, or Fannie Mae for Conventional Mortgage Loans, as applicable, with appropriate riders, and with such modifications as may be required by the terms hereof (particularly the restriction on assumptions set forth as Exhibit 7-N hereto).

Mortgage File means the mortgage documents (or photocopies, thereof) listed in Exhibit A to the Program Guide pertaining to a particular Mortgage Loan, except the original Mortgage Note and the related Mortgage, and all other documents as are customarily maintained in mortgage loan files by private institutional mortgage servicers, *provided* that there need be contained only a copy (or other evidence satisfactory to the Master Servicer) of hazard or other insurance policies, the original of which is not customarily held by a mortgagee.

Mortgage Lender means any party executing a Mortgage Origination Agreement on the final execution page thereof, being a home mortgage lending institution or entity approved by the Authority (i) which has been doing business on a regular basis in the State for at least 12 months and is currently participating in the local private home lending market from one or more offices located within the State, (ii) is a mortgagee approved by FHA, USDARD and/or VA, as applicable, (iii) which can make the representations, warranties and covenants set forth in Section 1.02 of the Mortgage Origination Agreement, and (iv) which has agreed to originate and sell Mortgage Loans in accordance with the terms of this Program Guide and to release servicing to the Master Servicer pursuant hereto.

Mortgage Lender's Delivery Obligation. The Mortgage Lender's agreement to make, deliver, and sell qualified Mortgage Loans to the Servicer pursuant to the Authority's agreement to purchase Mortgage Loans under the Mortgage Origination Agreements.

Mortgage Loan. A loan made by a participating Mortgage Lender to an Eligible Borrower for the purchase of a Qualified Dwelling and secured by a Mortgage on such real estate.

Mortgage Note means the written instrument executed to evidence the borrower's obligation to repay the Mortgage Loan, which shall be the then-effective form of mortgage note required by FHA for FHA Insured Mortgage Loans, USDARD for USDARD Guaranteed Mortgage Loans, or VA for VA Guaranteed Mortgage Loans, each approved under the GNMA Guide, or in the form required by Fannie Mae for Conventional Mortgage Loans, with such modifications or riders or addenda as may be required by the terms hereof.

Mortgage Origination Agreement means the agreement executed by the Authority, the Master Servicer and any Mortgage Lender that serves as the basis for such Mortgage Lender's participation in the Single Family Program.

Mortgage Purchase or Purchase means any closing held at which a Mortgage Loan is sold by the Mortgage Lender to the Master Servicer.

Mortgage Purchase Date or Purchase Date means the date on which a Mortgage Purchase occurs.

Mortgage Submission Voucher means the voucher substantially in the form of Exhibit B hereto, as the same may be amended by the Authority from time to time, which is submitted by the Mortgage Lender to the Master Servicer.

Mortgagor means any person who has a present ownership interest in a Single-Family Residence subject to the related Mortgage and/or executes the Mortgage (but such term does not include any person who (i) executes only the Mortgage Note as a guarantor or co-signor and does not have such a present ownership interest in the Single Family Residence, or (ii) executes the Mortgage solely for the purpose of waiving any rights of dower or curtesy in the Single Family Residence).

Mortgagor's Certificate means the forms of Mortgagor's Application Affidavit and Certification (attached as Exhibit 5-A) and Mortgagor's Closing Affidavit and Certification (attached as Exhibit 5-B) upon which each prospective borrower must certify certain things in order to comply with the Tax Code.

New Construction means a residence which has not previously been occupied.

Non-Qualifying Mortgage Loan shall mean and include any Mortgage Loan purchased hereunder with respect to which:

a. The Master Servicer fails to approve the Pool Documentation Package, as defined in the Servicing Agreement, or the Mortgage Lender fails to deliver all documents to the Mortgage File on a timely basis, or such documentation for Mortgage Loans do not conform to the requirements of the Program Guide and the GNMA Guide or the Fannie Mae Guides, as applicable.

b. Borrower fails to occupy the related Single-Family Residence as a principal residence within sixty (60) days after execution of the related Mortgage.

c. The related residence does not qualify as a Single-Family Residence as defined herein, including, but not limited to, a situation where more than fifteen (15%) percent of the total area of the residence will be used in a trade or business, including child care services on a regular basis for compensation, or as investment or rental property, or as a recreational home.

d. The Purchase Price of the related residence exceeded the Maximum Purchase Price.

e. Except as to Mortgage Loans that relate to residences in Targeted Areas, prospective Eligible Borrowers are not First-Time Homebuyers.

f. The prospective Eligible Borrower's Annual Household Income at the time of the Closing of the Mortgage Loan exceeds the applicable Maximum Household Income Limit.

g. The Mortgage Loan fails to comply with all the applicable provisions of Chapter 2 of this Program Guide or the Mortgagor's Certificate or Seller's Certificate or Notice to Mortgagor of Information Regarding Potential Recapture Tax (attached as Exhibit 7-P).

h. Any statements contained in any of the Affidavits of the Buyer, Seller or Mortgage Lender are determined to be incorrect, untrue, misleading or fraudulent.

i. The Mortgage Loan is a refinancing of an existing loan other than a construction period loan, bridge loan, or similar temporary financing of not more than twenty-four (24) months.

j. The Mortgage assumability rider attached to an FHA Insured or USDARD or VA Guaranteed Mortgage Loan is not approved by FHA, USDARD or VA, as applicable, or the Mortgage assumability rider attached to an USDARD Guaranteed or Conventional Mortgage Loan is not approved by Fannie Mae.

l. Failure to provide the Master Servicer with the documentation required in Part II of Exhibit A of the Program Guide within the time period specified therein.

m. The Mortgage Loan otherwise fails to comply with the terms set forth in the Mortgage Origination Agreement or this Program Guide.

Notice Address means:

a. As to the Authority:

Attention: Single Family Housing
Arkansas Development Finance Authority
423 Main Street - Suite 500
Little Rock, Arkansas 72201 **or**
P.O. Box 8023
Little Rock, Arkansas 72203-8023

b. As to the Master Servicer:

The Leader Mortgage Company
1015 Euclid Avenue
Cleveland, Ohio 44115

c. As to the Trustee:

Attention: Corporate Trust Department
Simmons First National Bank
501 Main Street
Pine Bluff, Arkansas 71611

d. As to the Mortgage Lender, the address shown on the Mortgage Origination Agreement.

Origination Fees means the fees collected by the Mortgage Lender from an Eligible Borrower or Seller of a Single Family Residence.

Permitted Encumbrances means liens, encumbrances and clouds on the legal title of a Single Family Residence permitted by FHA, USDARD, VA, the PMI Insurer or Fannie Mae, as applicable.

Preliminary Approval and Compliance Package means Exhibit 6-G hereto, and all documents required by Exhibit 6-G to be delivered to the Authority prior to the Closing of a Mortgage Loan.

Prepayment means any monies, however derived, which are received or recovered by the Authority from any payment of, or with respect to, principal on any Mortgage Loan prior to scheduled payments of principal called for by such Mortgage Loan; *provided*, *however*, that no monies received or recovered by the Authority from the repurchase of a Mortgage Loan by a Mortgage Lender pursuant to any Mortgage Origination Agreement must be a prepayment.

Private Mortgage Insurance or PMI means any private mortgage insurance company approved by Fannie Mae and providing private mortgage guaranty insurance on Conventional Mortgage Loans in accordance with the Fannie Mae Guide, and licensed to conduct business in the State of Arkansas.

Property Value means the lesser of the Acquisition Cost or the Appraised Value of the Qualified Dwelling at the time of origination of the Mortgage Loan.

Qualified Appraiser means an individual who is approved and/or assigned, as applicable, by FHA, USDARD or VA, or the PMI Insurer and Fannie Mae, as applicable, and is licensed by the State under Arkansas Code Annotated Sections 17-51-101 et seq., as amended and supplemented from time to time.

Qualified Census Tract means a census tract (as defined by the Secretary of Commerce) in which 70 percent or more of the families have an income which is 80 percent or less of the State-wide median family income.

Qualified Condominium Unit means a condominium unit meeting the requirements of the GNMA Guide or the Fannie Mae Guides, as applicable, and which is acceptable to FHA, USDARD or VA, or the PMI Insurer and Fannie Mae, as applicable.

Qualified Duplex means a Single Family Residence (i) consisting of two attached single family units, one unit of which is occupied by the owner as his or her primary residence or is to be so occupied within a reasonable time after the Purchase Date but not more than sixty (60) days thereafter and (ii) which was first occupied as a residence at least five (5) years before the Closing of the Mortgage Loan and the execution of the Mortgage related thereto.

Qualified Dwelling or Single Family Residence means a private detached or attached owner-occupied house, rowhouse, townhouse, or condominium which:

a. contains complete living facilities and facilities functionally related and subordinate thereto;

b. is located within the State;

c. is designed and intended primarily for residential housing (not more than 15% of the total area of which can be used in a trade or business) for one family;

d. which is determined by a Qualified Appraiser to have an expected useful life of not less than the FHA, USDARD, VA or Fannie Mae requirement for a 30-year loan;

e. will be occupied by the Eligible Borrower as his or her principal residence within 60 days of Mortgage Loan Closing;

f. is permanently affixed to land;

g. the Purchase Price does not exceed the Maximum Purchase Price as set by the Authority; and

h. which appurtenant land does not exceed five acres and reasonably maintains the basic livability of the residence and does not provide, other than incidentally, a source of income to the borrower, including child care services on a regular basis for compensation.

THE TERM QUALIFIED DWELLING SPECIFICALLY DOES NOT INCLUDE:

- Rental houses;
- Vacation homes;
- Factory-made housing that is not permanently affixed to land;
- Stock or any other ownership interest in a cooperative housing corporation or organization;
- Property, such as appliances or furniture, that is not a fixture under applicable law;
- Land that is not necessary to maintain basic livability of a residence or which provides, other than incidentally, a source of income to the eligible borrower. A general rule of thumb is that a residence in which more than fifteen percent (15%) of the total area is expected to be used in a trade or business or which contains land greater than 5 acres is NOT eligible!

Qualified Insurer means any insurance company approved by FHA, USDARD, VA, Fannie Mae, GNMA and the PMI Insurer, as applicable, to provide insurance, other than Private Mortgage Guaranty Insurance on single family residences in the State.

Qualified Mortgage Loan means a Mortgage Loan which is not a Non-Qualifying Mortgage Loan.

Resolution means, together, the General Resolution and the Series Resolution.

Seller shall mean any seller or sellers of a Qualified Dwelling to be acquired by a borrower using the proceeds of a Mortgage Loan.

Seller's Certification shall mean the Seller's Affidavit and Certification (attached as Exhibit 7-M) to be completed by the Seller of a Qualified Dwelling to be acquired using the proceeds of a Mortgage Loan upon which each Seller must certify certain things in order to comply with the Tax Code.

Series Resolution means any Series Resolution authorizing the issuance and sale of Home Mortgage Revenue Bonds.

Servicing Agreement means, collectively, the Master Program Administration and Servicing Agreement dated as of July 1, 1998, and supplemented as of June 1, 2000, and again on June 1, 2001, by and among the Authority and the Master Servicer.

Servicing Release Fee means the fee payable by the Servicer to a Mortgage Lender that shall equal a percentage of the outstanding principal amount of a Mortgage Loan as the Authority shall from time to time determine.

Single Family Residence has the same meaning as Qualified Dwelling, as set forth above.

Standard Hazard Insurance Policy means a standard homeowner's fire insurance policy with extended coverage as approved by the Insurance Commissioner of the State, and which qualifies under all applicable requirements of FHA, USDARD, VA or Fannie Mae, as applicable.

Standard Residential Purchase Contract means a contract to purchase residential property, but not an installment agreement for deed, articles of agreement for deed, land sales contract or any other form of ownership or financing that allows a purchaser to enjoy the benefits of ownership without title to the property.

State means the State of Arkansas.

Supplemental Notice means a written notice from the Authority to all affected Mortgage Lenders and the Master Servicer, by which the Authority exercises its reserved right to modify certain provisions of the Mortgage Origination Agreement and this Program Guide.

Targeted Area means an area which is either (a) listed as a Qualified Census Tract, or (b) an "area of chronic economic distress" designated by the State as meeting the standards established by the State and approved by HUD. ADFA maintains a current list of Targeted Areas on its website; also, the Targeted Area list is contained in Exhibit E.

Targeted Area Loans means Mortgage Loans secured by Mortgages on Single Family Residences located in a Targeted Area.

Tax Code means the Federal Internal Revenue Code of 1986, as amended, and all subsequent tax legislation duly enacted by the Congress of the United States of America. Each reference to a section of the Tax Code herein shall be deemed to include the United States Treasury Regulations proposed or in effect with respect or applicable thereto and applicable to the Bonds or the use of the proceeds thereof.

USDARD means the USDA Rural Development or any successor to its functions.

USDARD Guaranteed means guaranteed pursuant to an USDARD Guaranty.

USDARD Guaranty means a guaranty of a Mortgage Loan by the USDARD under Section 502 of Title V of the Housing Act of 1949, as amended, and as such Act may be amended from time to time.

VA means the Department of Veterans Affairs of the United States of America or any successor to its functions.

VA Guaranteed means guaranteed pursuant to a VA Guaranty.

VA Guaranty means a guaranty of a Mortgage Loan by the VA in accordance with the provisions hereof and under the Servicemen's Readjustment Act of 1944, as amended.

Unless otherwise defined herein, all words and phrases defined in Article I of the General Resolution or Article I of the Series Resolution shall have the same meaning herein.

H. A Special Word About Buyers, Borrowers and Mortgagors

You will notice throughout the Program Guide that, from time to time, the terms “buyer”, “borrower”, and “mortgagor” are used somewhat interchangeably. We apologize for any confusion this may cause. Please note that these variations are a product of the Tax Code. For the most part, when either term is used, it is possible to use the other without disrupting the overall meaning of the relevant provision.

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 2
MORTGAGE REVENUE BONDS - TAX CODE COMPLIANCE ISSUES

Participating Mortgage Lenders must understand that there are two separate but simultaneous reviews that will have an impact on any Mortgage Loan originated through the Single Family Program: (1) Tax Code compliance, and (2) credit/real estate underwriting. The latter is what Mortgage Lenders presumably do every day. However, Tax Code compliance review is unique to ADFA loans.

There are three key elements to the determination of Tax Code compliance with regard to borrower eligibility for participation in the Single Family Program:

- The borrower must be a First-Time Homebuyer (if property is located in a Non-Targeted County).
  - The borrower's Annual Household Income must be within the allowable Maximum Household Income Limit for the county in which the property is located.
  - The residence that will be subject to a Mortgage must meet the definition of a Qualified Dwelling.

ADFA requires documentation to support these three basic determinations. The documentation must be inclusive enough to satisfy IRS auditors.

A. First-Time Homebuyer Requirements

1. General

~~Area. A first-time homebuyer is a person~~As a general matter, a First-Time Homebuyer is an Eligible Borrower who has not had ~~an~~a present ownership interest in a principal residence at any time during the three-year period prior to the date ~~the mortgage is executed. This requirement is generally~~on which the Mortgage is executed. Each Eligible Borrower (including a non-borrower spouse or co-occupant) must meet the First-Time Homebuyer ~~easy to document.~~requirements as set forth by Tax Code in order to participate in the Single Family Program (there is an exception for any residence located in a Targeted Area, as discussed below).

"Present ownership interest" includes not only an outright ownership interest (a fee simple interest) in a residence; it also includes any of the following interests if held directly by the borrower or in trust for the benefit of the Eligible Borrower:

- A joint tenancy
- A tenancy in common
- A tenancy by the entirety
- A community property interest
- The interest of a tenant-shareholder in a co-operative
- A life estate
- A contract for deed

"Present ownership interest" does not include:

- A remainder interest
- A lease with or without an option to purchase
- A mere expectancy to inherit an interest in a principal residence
- The interest that a purchaser of a residence acquires upon the execution of a purchase contract
- An interest in other than a principal residence during the previous three (3) years

2. Special Areas of Concern Regarding the First-Time Homebuyer

a. Prior Ownership of a Mobile Home. The determination of whether or not prior ownership of a mobile home disqualifies an Eligible Borrower from being a First-Time Homebuyer must be made on the basis of facts and circumstances of each particular case. In order to preserve Single Family Program eligibility, the mobile home at issue must have at all times been "mobile"! Any Eligible Borrower who had a prior ownership interest in a mobile home during the three year period prior to execution of the Mortgage must provide adequate documentation that:

- The components which operate only during transportation (hitch and axle) have not been removed;
- The mobile home is moveable and transportable; AND
- No permanent additions have been built around or added to the mobile home structure. Such items include permanently affixed decks, room additions, etc. However, if a deck has been built and the mobile home is merely sitting next to the deck, that would not constitute permanently affixed.

The prior ownership of a "double wide" mobile home will disqualify a prospective Eligible Borrower from First-Time Homebuyer status.

b. Inherited Property. An expectancy to inherit property does not constitute a present ownership interest. However, if the Eligible Borrower occupies the residence after acquiring a vested title interest, the person no longer fits the definition of a First-Time Homebuyer. For example, if a child resides in a residence owned by a parent, and if the child inherits the residence when the parent dies, he/she immediately acquires a present ownership interest at the time of death and thereby loses his or her ability to qualify as a First-Time Homebuyer. However, if the child has not occupied such residence at or since the time of the parent's death, he/she may still qualify as a First-Time Homebuyer.

c. Divorce Within the Last Three Years. You may occasionally encounter a situation where the Eligible Borrower or Co-Eligible Borrower was divorced within the last three years. Be careful!! It is possible that the divorced party may have had a present ownership interest in a residence while in the previous relationship. If this proves to be true, the Eligible Borrower will not qualify as a First-Time Homebuyer. Please see Section 3(b), below, for a detailed explanation.

~~The primary form of documentation is the Federal income tax returns. Eachborrower must provide copies of his or her FEDERAL tax returns for the last three (3) years, including any and all attached schedules and copies of W-2 forms. We will review the returns to see if borrower has taken deductions for home mortgage interest or real estate taxes. In addition to looking for deductions, we will check to make sure that the name of the filer is shown on the first page of each return and that it matches the name or former name of the borrower. Each first page must also reflect the filer's address and social security number. The return MUST be signed and dated. Extensions filed for late tax payment should be included at application with a copy of the actual return forwarded to the Authority at time of filing. We do NOT need or want STATE income tax returns.~~

~~If the residence is located in a Targeted Area, it does not matter if deductions were claimed. However, if the residence is in a non-targeted area and deductions were claimed for mortgage interest or real estate taxes, the borrower must supply a written explanation along with supporting documentation. Remember, the burden of proof is on the borrower.~~

~~During this period of January 1 through April 15, the question arises as to which three years of tax returns should be submitted. We ALWAYS want the three most recent returns. So the answer to the question depends on whether the borrower has or has not filedthe prior year's return.~~

~~Example: On February 20, 1998, the buyer makes application. If the buyer has already filed his or her 1997 tax returns then you obtain a copy along with the 1996 and 1995 returns. If the buyer has not filed the 1997 tax return, then get the 1996, 1995, and 1994 returns. Here is where it can get a little tricky. If the borrower has provided the 1996, 1995 and 1994 returns yet the loan closes on or after April 15, then the 1997 federal tax return will be required before ADFA can approve the loan for purchase. We strongly recommend that you obtain the return that is due on April 15 BEFORE you close the loan. This assures you that the borrowers are still first-time buyers.~~

~~**C. Special Issues Regarding First-Time Homebuyer**~~

~~Following are some special issues that often arise when evaluating the first-time homebuyer requirement:~~

~~10 Extension for Filing Tax Return. If a buyer has requested an extension to file a tax return, you must get a copy of the filed extension request. If the actual returns are filed between prior approval and closing, copies of the returns should be submitted to the Authority. Do not close until you are sure that the borrowers are still first-time homebuyers and do not exceed the income limit!~~

~~2. Buyer Did Not File Tax Return. If the buyer was not obligated to file a Federal tax return during one or more of the prior threeyears, then have the borrower complete the Exhibit C-2-Mortgagor's Affidavit and Certification. This exhibit may not be used in the case of lost or misplaced tax return. You may include multiple years on one form, BUT you must use separate forms for multiple borrowers.~~

~~3. Lost of Misplaced Tax Returns. You will be amazed how many people can't find a tax return! If the buyer has lost his or her copy of the tax returns, he or she will need to go to the local IRS office and request a copy. There is no waiver or substitute for federal tax returns! ADFA will accept certified copies of the returns OR original transcripts thereof. The transcript as provided by IRS must contain line-by-line information. Transcripts MUST bear the IRS stamp, date and official signature. Informational or condensed forms provided by tax private preparation companies are not approved for use with ADFA loans. Upon receipt of the copy of the tax returns or the transcript, you should check them and make sure that no deductions were made for home mortgage interest or real estate taxes~~

~~4. Prior Ownership of a Mobile Home. The determination of whether or not prior ownership of a mobile home disqualifies a borrower from being a first-time buyer must be made on the basis of facts and circumstances of each particular case. A borrower who had a prior ownership interest in a mobile home must provide adequate documentation that confirms the following facts concerning the mobile home:~~

~~a. The components which operate only during transportation (hitch and axle) have not been removed;~~
~~b.The mobile home is moveable and transportable;~~

~~c. No permanent additions have been built around or added to the mobile home structure. Such items include permanently affixed decks, room additions, etc. If a deck has been built and the mobile home is merely sitting next to the deck, that would not constitute permanently affixed.~~

~~The best documentation for ADFA is to get a picture of the axles and hitch and include the pictures with the loan file at prior approval. Advise the Realtor or whoever is taking the picture to use a flash attachment since most cameras take poor pictures in low light/no light areas such as the under side of a mobile home. Borrowers must execute Exhibit Q-Mobile Home Affidavit.~~

~~The prior ownership of a "double wide" mobile home will disqualify a borrower.~~

5. ~~Inherited Property. An expectancy to inherit property does not constitute an ownership. However, if the person occupies the residence after acquiring a vested title interest, the person is no longer a first-time homebuyer.~~

~~Example: If the borrower resides in the property of which he/she is an heir and the owner dies, he/she immediately acquires an ownership interest at the time of death and does not qualify as a first-time homebuyer. But, if the borrower has not occupied the property at or since the time of owner's death, he/she may still have his first-time borrower status.~~

6. ~~New Mortgage Requirement. The borrower cannot have had a prior mortgageor other financing on the subject residence, with the following exceptions:~~

   a. ~~Bridge loans. A prior mortgageobtained for temporary financing, such as a construction loan or bridge loan, is acceptable provided the mortgage has a term of twelve (12) months or less.~~

   b. ~~Lease with Option to Purchase. Seller financing is established when a rent credit is provided under a lease with option to purchase. Therefore, the renter is not an eligible borrower unless: (I) the lease only provides a right of first refusalto purchase and no portion of the rent paid has been or will be credited to the purchase price; or (ii) the term of the lease must state that it is for no more than 24 months as of the mortgage closing date.~~

~~In order to substantiate any of the above exceptions, the financing document (mortgage, contract or lease) must have been recorded in the relevant county real estate records at the time of execution. A certified copy of the document must be obtained from therecorder's office and provided to the Authority.~~

7. ~~Divorce Within the Last Three Years. You may occasionally encounter a situation where the borrower or co-borrower was divorced within the last three years. Be careful!! It is possible that the divorced party may have had an ownership interest in a home while in the previous relationship. If this proves to be true, the borrowers will not qualify as first time homebuyers. The following represents some of the more common approached we use to make our determination:~~

   a. ~~Ask the applicant whether he (or she) owned a home during the previous marriage.~~

   b. ~~Review the tax returns to see if deductions were taken for home mortgage interest or real estate taxes. If none were taken you are probably OK.~~

   c. ~~Obtain a copy of the divorce decree along with other agreement for child support, etc. Review the decree to determine if there is~~

~~any language which may give you a clue of prior ownership. References to such things as quitclaim, transfer of interest, release of obligation, or hold harmless are terms often used when settling property disposition. If you find these references, you may want to forward a copy of the document to our office for an opinion.~~

~~Example: The co-borrower divorced two years ago. The divorce shows that she split the proceeds from the sale of the former residence of which she was on title. Is she a first-time homebuyer? Based upon this information alone, she is not. However, after further investigation we discovered that for 14 months prior to the divorce she was separated and living in an apartment. She also was able to produce rent receipts to prove her rental residency. Based upon the new information, she now qualifies. She clearly had an ownership interest in a residence **BUT**– not one that was her "principal place of residence." In this example the ownership interest is viewed similarly to an ownership of investment property. Therefore, she satisfied the 3-year, non-ownership rule and can be viewed as a first-time buyer.~~

~~D. Household Income~~

~~Of the three compliance issues we review, household income is by far the most difficult and frustrating. In fact, the number on reason for rejection of a loan application under our programs is due to the borrower being "over income." As was the case in the first-time buyer requirement, the term "borrower" means the borrower and the co-borrower(s) including those not taking title, if any, collectively. The borrower must satisfy each of the following requirements.~~

~~The borrower must have a household income that does not exceed the applicable limit shown in **Exhibit G**. Please note that the limit varies depending on the county in which the residence is located and whether the residence is located within a targeted or non-targeted area of the State. The limit also varies depending on the household size of the borrower.~~

~~The Department of Housing and Urban Development (HUD) publishes median family income figures that are the basis for determining the Program household income limits. Starting with Programs issued in 1989, tax law requires the Authority to set the income limit at the following percentages of the median family income for the area of the state in which the borrowers intend to reside:~~

~~**Household Size of**~~	~~**1 or 2**~~	~~**3 or more**~~
~~Non-Targeted Areas~~	~~100%~~	~~115%~~
~~Targeted Areas~~	~~120%~~	~~140%~~

~~**NOTE:** HUD issues revised figures periodically and generally on an annual basis. The Authority will notify you in advance of the effective date when limits are revised.~~

~~Household income is the borrower's annualized gross income. Annualized gross income isgross monthly income at the time of application **multiplied by 12.** That's right. Thetax code requires that we must project income forward, twelve (12) months. Gross monthly~~

~~income is the sum of monthly gross pay as well as additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation, net rental income,etc. Income also includes alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, income received from business activities or investments anddeferred income usually seen through 401K contributions. In other words,~~ ~~**ALL INCOME FROM ALL SOURCES.**~~

1. ~~**Pay stubs** - In most cases, income is documented by providing the Authority with the two most recent pay stubs and the tax returns. Other than for unusual circumstances, we no longer will require a Verification of Employment (VOE). We have found over the years that VOE's aren't very reliable. Some understate, others overstate income. Just about all of them are inaccurate. Calculating income begins to become more difficult when you have a borrower that works irregular overtime, receives bonus and/or commission or is self-employed.~~

2. ~~**Date of Income Determination** - The date used to determine the borrower's household income is the **date of closing** if the mortgage loan. We must then project the income forward 12 months to establish the annual income. Because of the obvious practical problems the determination date presents, the tax law allows the Authority (and lender) to rely upon:~~

3. ~~Information obtained from loan application documents (i.e.) loan application, pay stubs, tax returns etc.; and~~

4. ~~A re-affirmation at closing by the borrower that the information set forth in the Affidavit of Buyer (including household income) is still true, correct and complete.~~

   ~~**NOTE: IT IS VERY IMPORTANT TO DOCUMENT ANY AND ALL CHANGES THAT MAY OCCUR AFTER PRIOR APPROVAL AND BEFORE CLOSING.** IF THE INCOME EXCEEDS THE LIMIT THE AUTHORITY WILL NOT BE ABLE TO PURCHASE THE LOAN. IN OTHER WORDS, ADVISE PEOPLE TO NOT BE "SUPERSTARS" ON~~

   ~~THEIR JOB UNTIL AFTER CLOSING. BIG PROMOTIONS MIGHT MAKE THE INELIGIBLE. ALSO, DO NOT LET THEM FALL IN LOVE AND TAKE ON A ROOMMATE. IF THIS HAPPENS, AND IT HAS, WE HAVE TO BEGIN THE INCOME CALCULATIONS ALL OVER AGAIN.~~

5. ~~**Commission, Bonus or Overtime** - We generally will average commissions, bonuses and overtime over the last 2 years using tax returns and current year-to-date pay stubs. If there is a clear pattern of such income either increasing or decreasing, we will place more emphasis on the past 12 months. Letters of explanations from the~~

~~borrower and employer may be appropriate if you see unusual patterns or swings in overtime or bonuses.~~

~~Some borrowers and realtors might say that certain previous income sources such as overtime, commissions or bonuses were "one-time events" and will never occur again. We will require verifications of such statements from an unbaised third party (i.e. the employer).~~

~~6. **Self-Employed Borrower** - We generally will average income over the last 2 years using Federal income tax returns, and a **profit and loss statement** prepared by a third party for the current year. Income calculations on this type of borrower does allow you to not include legitimate operating expenses. If applicable, Federal income tax returns are required for self-employed borrowers who have created a partnership or corporation. As with commission, bonuses and overtime, we will place more emphasis on the past 12 months if there is a clear pattern of increasing or decreasing income.~~

~~**NOTE: A PROFIT AND LOSS STATEMENT MAY ALSO BE REQUIRED FROM A BORROWER WHO IS EMPLOYED FULL TIME, BUT SHOWS OTHER BUSINESS INCOME LOSS/GAIN ON HIS/HER FEDERAL INCOME TAX (SEE LINE 12 OF FEDERAL INCOME TAX RETURN).**~~

~~7. **Child Support/Alimony** - The borrower may be a married, divorced or separated or single person who wishes to apply for a mortgage loan. Child support and alimony payments must be included as household income. The documentation needed is a copy of the appropriate (and most current) court decree, which sets forth the amount of the support. As an alternative, if the payments for support are being made directly to the State of Arkansas, the State will produce a "print-out" sheet which displays all of the information needed to determine the amount of income to include for your borrower.~~

~~8. **Married or Separated Borrowers Taking Title Individually** - You may encounter a married or separated person who wishes to apply for a mortgage loan and take title to the residence in his/her name only and not jointly with the spouse. This is acceptable, but only after documenting that the borrower would still be eligible of the spouse were also to apply and take title. In other words, both borrower and his/her spouse must be **first-time homebuyers** and have a **combined** household income within the applicable limit. The spouse not taking title must execute the Affidavit of Buyer, provide tax returns, and his/her two most recent pay stubs. If after review, the loan application can still be approved, the spouse **not** taking title must waive homestead rights. (See closing section for proper language to waive homestead rights.)~~

~~E. Other Miscellaneous Forms of Income~~

1. ~~**Deferred Income -** Household income also includes all deferred income such as an employee contribution to a pre-tax retirement plan, the most common such plan being the so-called 401(k) plan. Any amountsthe **employer** contributes into a retirement plan that can be **withdrawn** (not borrowed against) must be included in the borrower's household income calculation, even if such withdrawal will lead to a penalty or tax liability for the participant. The key is whether the contributions can be **"withdrawn"** vs. **"borrowed against"**! The following steps can be used to make this determination:~~

    a. ~~Calculate the household income and include the employer and employee contributions. If the borrowers income does not exceed the limits, you need to do nothing more.~~

    b. ~~If the deferred income does put the borrower in excess of income limits, then obtain from the Plan Administrator the section from their Plan Articles that state the restrictions governing withdrawals from the Plan. If the Articles state that the contributions can only be borrowed against, then do not include the income contributed by the employer.~~

    c. ~~In all instances, the borrower's contribution must be included in the income determination.~~

2. ~~**Interest Earnings -** If a borrower has a large savings account and there will be savings left after closing, we will input interest on the savings account assuming a 3.25% interest rate which is determined by HUD.~~
3. ~~**Dividends From Stock and Bonds etc. -** We will include realized earnings from dividends paid from investment portfolios unless the portfolio is liquidated prior to closing.~~

4. ~~**Temporary or Nonrecurring Income -** We do **not** need to include temporary, nonrecurring or sporadic income (including gifts) or income derived from "straight-line depreciation." Included in this category are such things as: business expense reimbursement; amortization of capital expenses; per diem allowances; reimbursement for moving expenses; or income used to pay for operating expenses, as often seen with the self-employed borrower.~~

~~F. Purchase Price Limitations and Qualified Dwellings~~

~~The home being financed must be a "Qualified Dwelling" and must not exceed the purchase price limits for the area in which it is located. The borrower must acquire a **fee simple interest** in the real estate and the residence being financed must become the **principal residence** of the borrower within 60 days after the closing of the mortgage loan.~~

~~**Types of Residence** – The following types of residences qualify:~~

~~a. A single family detached residence, including a factory-made home that is permanently affixed to real property;~~

~~b. A townhome;~~

~~c. A condominium unit;~~

~~e.d. A duplex unit, provided the structure was first occupied as a residence at least 5 years ago.~~

~~e.~~

~~**Acquisition Cost** - In order to qualify the residence must have an acquisition cost no greater than the allowable limit shown in **Exhibit F**. Please note that the **limit varies** depending on whether the residence is located within a targeted or non-targeted area; the county in which the residence is located; whether the residence is new or existing construction; and whether it's a duplex. The U.S. Treasury Department publishes average area purchase prices which are the basis of setting theProgramlimits. Thelimits represent 90% of average area median for non-targeted area residences and 110% of average area for targeted area residences. As with the household income limits, the Treasury Department will periodically issue new figures. We will notify you in advance, through our contact person, of the effective date when thelimits are revised.~~

~~We have often found that the Treasury Department limits do not always seem realistic. In fact, it would be safe to say that on occasion they aren't even close. In order to address this problem, the Authority conducts its own data collection every January. We obtain year end data from the various Boards of Realtors for the existing residences. New construction data is not so easy. We must rely upon our lenders to obtain dales data for us. So, if you don't like the numbers reflected, give us a call and we will work with you in obtaining more accurate data and include it with our annual Private Letter Ruling Request that we send to the IRS every year.~~

~~Determining the acquisition cost is usually pretty easy. It is equal to what is shown on the sales contract and reflected on the Buyers and Sellers Affidavits. If the numbers match andsales price is beneath the purchase price limit, then the home qualifies. If this sounds too simple, you are starting to catch on. The tax code (and our lawyers) have an enormously difficult time in dealing with "simple." We must approach thiscompliance issue from a view point more closely resembling that of an IRS auditor: "there is something wrong here and I'm going to find it !"~~

~~**Acquisition cost** includes **ALL** amounts paid, either in cash or in kind,to the seller as consideration for the residence. This includes thecost of completing an incomplete or unfinished residence. (Incomplete or unfinished areas means that occupancy is not permitted under law, or that the residence lacks fixtures or~~

~~architectural appointments normally included or needed to provide adequate living space for the family members who intend to occupy theresidence.) In other words,include everything the borrower pays the seller, minus the items listed below, to purchase the residence.~~

~~Acquisition cost does **not** include:~~

~~(i) Usual and reasonable settlement and financing costs;~~

~~(ii) The unpaid value of services performed by the borrower or members of his or her family in completing or finishing the residence. **THIS IS BETTER KNOWN AS SWEAT EQUITY;**~~

~~(iii) Items of personal property which are not fixtures and/or are permanently affixed to the property;~~

~~(iv) The cost of minor repairs, fix-ups, etc. performed after closing and paid for by the borrower.~~

~~When a sales contract includes personal property, the buyer and seller must establish a fair market value for the personal property. The fair market value must be deducted from the sales price when calculating the acquisition cost and the loan-to-value ratio. We are not going to worry about such things as old refrigerators and stoves, draperies or other typical items that really have no value to the sellers. We **will** concern ourselves of the contract includes the $10,000 bass boat parked in the garage or the new stereo system. If in doubt **call our offices.**~~

~~**G. Miscellaneous Other Stuff**~~

~~The following are additional standards and requirements of a qualified residence.~~

~~a.**New Construction** - To qualify as new construction, the residence cannot ever have been occupied by anyone. A model home qualifies, provided it was never rented or occupied as a residence prior to being sold.~~

~~b.~~

~~**Properties With More Than 5 Acres** - Federal regulations prohibit the Authority from financing a residence located on land in excess of that needed to "reasonably maintain basic livability." This prohibition has been generally interpreted to mean land not exceeding **fiveacres.** Therefore, if the land on which the house sits is in excess of 5 acres, you should determine that the property meets this standard and provide ADFA an explanation to justify the determination.~~

~~c.**Properties With More Than One Livable Structure** - Properties containing a main structure and a "coach house" can be cause for frustration. Unfortunately, the only solid advice we can give you is to say that we will consider these loans on a case-by-case basis. Our concern gets back to the issue of what constitutes "basic livability." We have to be confident that there is no intention on the part of the borrower to use the additional structure in a trade or business. In some cases we can rely on a sworn affidavit from the borrower stating that the "coach house" will not be used in any trade or business, including use as rental property. But, depending upon the appearance of the structure, statements, or comments made by the appraiser, the real estate tax numbers (one or two) or other circumstances surrounding the intended use of the additional dwelling, we may be forced to deny the loan. Again, the key is to contact us for advice if you encounter this situation.~~

~~d.**Appraised Value Exceeds Program Limit** - If the appraised value of the property exceeds the allowable purchase price limit do not gag. We still may be able to make the loan. The issue that needs to be addressed is whether we have a deliberate attempt to circumvent the purchase price limits or do we have a borrower who just got a good deal. If the appraised value exceeds the limit but the acquisition cost is below the limit **AND** transaction is clearly an "**arms length"** (not a relative) transaction, we usually conclude that our borrowers got a "good deal." We may require a statement from the buyer(s) and seller(s) indicating that no relationship exists of we are unclear about the relationship between the buyer(s) and seller(s). If you discover that the transaction is NOT "arms length," sell the loan to some other investor. Generally, the property is not eligible if the appraised value exceeds 110% of the sales price.~~

~~e.**Land Owned By Borrower** - If the borrower intends to have a home built on land already owned, the cost of land can only be included **IF** the land was acquired within two (2) years prior to commencement of construction. If the land was purchased more than two years ago, the cost of the land is not counted toward acquisition cost. In order to determine whether to include the land or not, obtain a certified copy of the deed from the Recorder's office and submit to the Authority when you submit the file.~~

~~If the land was acquired within the two year limitation, the value of the land **must** be included in the acquisition cost and can be substantiated by either the sales contract or the closing statement if financed. If the borrower acquired the land through some form of seller financing or through inheritance, the acquisition date is the date of the seller finance agreement or the date of death.~~

~~H. Recapture~~

~~The Federal government views homebuyers who purchase a residence with loans financed with the proceeds of tax-exempt bonds as having received a "subsidy" because of the below-market interest rate. A restriction requires that a homebuyer who has taken advantage of the below-market interest rate may be required to repay part or all of the subsidy to the Federal government if: the homebuyer sells the residence within nine (9) years of purchase; realizes a capital gain; has had significant increases in the household income since the loan made. The repayment is in the form of a tax and is commonly referred to as~~ ~~**Recapture."**~~

~~Due to this provision in the tax code, we require that the potential borrower be informed of this possible taxation at the time of application. The Notice to Mortgagor,~~ ~~**Exhibit X-1**~~ ~~must be provided to and signed by the borrowers at the time of application. By evidence of the borrowers signature, we are assured that they have been given notice. Two (2) additional notices will be provided to the borrowers. One is incorporated into the Affidavit of Buyer and the other will be signed by the borrower at closing.~~

~~1.~~ ~~**How Does Recapture Work -**~~ ~~The tax assumes that the amount of the subsidy realized by the borrowers is equal to 1.25% per year. The tax rate increases in increments by 1.25% for the first five years of ownership then, it declines by the same rate through the ninth year of ownership. The rate of tax is multiplied by the~~ ~~**original**~~ ~~loan amount to determine the amount of tax to be paid. The following chart shows the tax rates by year:~~

~~**YEAR OF RESALE**~~	~~**TAX RATE**~~
~~1~~	~~1.25%~~
~~2~~	~~2.50%~~
~~3~~	~~3.75%~~
~~4~~	~~5.00%~~
~~5~~	~~6.25%~~
~~6~~	~~5.00%~~
~~7~~	~~3.75%~~
~~8~~	~~2.50%~~
~~9~~	~~1.25%~~
~~10~~	~~No Recapture Tax Due~~

~~As you can see, the maximum amount of the recapture increases during the first five years of ownership and decreases for the next four years. After you have informed your borrowers of the potential for a recapture tax and have successfully applied CPR to revive them, let them know that in most cases (estimated to be around 90%-95%) a recapture tax will~~ ~~**not**~~ ~~need to be paid! Several factors will determine whether the tax must be applied. The factors include: the year in which~~

~~the property is sold; the circumstances surrounding the disposition of the property; the household size and household income at the time of resale and; the amount of capital gain made upon the resale.~~

~~2. **Recapture Tax Is Not Paid If:**~~

~~(i) The borrowers live in the house for more than nine years;~~

~~(ii) The borrowers do not get a capital gain upon resale;~~

~~(iii) The borrowers die;~~

~~(iv) The borrowers' household income at the time of sale has not increased to an amount greater than the maximum allowable income for the program with a 5% annual growth rate.~~

~~Let's focus on this last reason, since we feel that it will be the primary reason for not having to pay the recapture tax. Page 4 of Exhibit X-2 signed at closing by the borrowers at the loan closing shows a worksheet of the real or perceived risks involved with Recapture. We believe that in most cases, borrowers will not have to pay a recapture tax because their income will not exceed the allowed amount at the time of resale. As you will see in reviewing the chart, we have taken the maximum income limit for the program and projected it with a 5% annual growth rate. If the borrowers income is at or below this adjusted amount at the time of resale,~~ ~~**they pay no recapture tax!**~~ ~~Since our typical borrower's household income is well below the maximum allowed, it would require a borrower to realize huge increases (7%-15% or greater) annually before exceeding the limit.~~

~~3. **Who Are The Borrowers Most At Risk?**~~

~~(i)Single borrowers. If they get married they can double their income overnight.~~

~~(ii) Borrowers who are very close to being over income at the time ofapplication. They will be limited to income growth of no more than 5% annually if they expect to stay beneath the allowable limits.~~

~~(iii) Young professional or "superstars" who will be seeing large salary increases within the near future and do not intend to stay in the property for more than nine years.~~

~~4. **How Does The Borrower Pay The Tax?**~~

~~If thetax must be paid, it will be part of the borrowers tax computation when they file their returns for the year in which they sold the property.~~

~~5. **What If The Borrower Refinances?**~~

~~It is hard to believe that anyone would want to refinance one of our great rates. However, let's assume for discussion purposes only that they do refinance. If this occurs, thetax rate (see chart under "How Does Recapture Work") freezes in the year of refinance. As long as the borrowers continue to reside in the home they do not have to pay the tax.~~

~~**Example:** Our borrowers refinance in the third year. Thetax rate for year three is 3.75%. In year four the rate declines to 2.50%, year five it drops to 1.25% and year six it goes away. In any case, they would not pay any tax due until they move out of the house and the tax rate would be the rate for the year in which they moved. All other provisions of the recapture provision remain the same.~~

~~Now that you have memorized everything we have written in this chapter, we would like to move on but leave you with a couple of suggestions. First of all, do not make this more difficult than it is and use common sense. Keep in mind the three tax code issues: first-time homebuyer; purchase price limits; and income limits which includes all income from all sources. Also remember that no two loan files or borrowers are alike. There may be need to obtain documentation other than, or in addition to, what we have discussed. Always feel free to contact us if you encounter something unusual.~~

~~The participating lender is responsible for the preparation of the Exhibit X-2-Notice to Mortgagor of Information Regarding Potential Recapture tax.~~

~~The lender or loan closing agent is responsible for completing certain information on pages 1 and 4 of the exhibit and inserting the completed pages with the document. Please provide your closing agents with a copy of these procedures!~~

~~The steps to completion follow:~~

~~Exhibit X-2, page 1~~

1. ~~**Name of Mortgagor(s) & Co-Mortgagor(s):** Last, first & middle initial of all borrowers.~~
2. ~~**Settlement date:** Month/day/year to match date on Note.~~
3. ~~**Location:** Property address as it appears on the Note and Mortgage.~~
4. ~~**Check appropriate response:** See list of targeted counties - Exhibit E.~~
5. ~~**Loan Amount:** See Note.~~
6. ~~**Multiply 6.25% times the loan amount and type your answer.**~~

   ~~Any correction or white-out must be initialed by Mortgagor(s)~~

~~Exhibit X-2, pages 2-4~~

1. ~~Select the appropriate page for the county in which PROPERTY is located (separate pages for each of the 75 counties have been provided to you).~~
2. ~~Type Mortgagor's name(s) last, first & middle initial of all borrowers **(where indicated on document)**.~~
3. ~~Type Tracking Number **(where indicated on document)**.~~
4. ~~ORIGINAL signatures and date.~~

~~**ORIGINAL document must be accurately completed by Mortgage Lender or loan closing agent and executed by Mortgagor(s) at closing.** CAUTION: Repurchase requirements pursuant to Section 4.11 hereof are applicable.~~

~~The ORIGINAL **Signed EXHIBIT X-2** (four page document) must be included in the loan closing package, which must be shipped to ADFA **within 10 days of loan closing.**~~

~~PLEASE CONTACT A MEMBER OF THE SINGLE FAMILY HOUSING UNDERWRITING STAFF IF ASSISTANCE IS NEEDED IN COMPLETING THE~~

~~ABOVE DOCUMENT~~

~~CHAPTER 5 - LOAN CLOSING~~

~~A. Pre-Closing Procedures~~

~~Upon receiving approval from us, you may proceed to schedule the mortgage loan closing.~~

~~**NOTE:** We will carefully examine every loan submitted for purchase. These procedures, if followed by you, will help reduce:~~

1. ~~The period of time between the date you close the loan and the date we purchase it;~~

2. ~~The number of loans we withhold from purchasing, waiting for you to chase after title companies, buyers, sellers, etc.; and~~

3. ~~The number of loans not purchased and ultimately reassigned to your institution.~~

~~Our expectations are the same as any other secondary investor. We want to purchase loans that are compliant with the tax code and are "investment quality" with "valid and perfected" liens and "clean" title. Much of what you are about to read should not be new material, because it is what you do normally.~~

1. ~~**Revision in Loan Terms or Acquisition Cost** - If the borrower requests a change in terms of a mortgage loan which previously had been prior approved, and the loan amount changes, the proposed change(s) **MUST** be approved by the Authority prior to closing the mortgage loan. The change may necessitate the submission of additional or revised documentation.~~

2. ~~**Satisfactory Completion Certificate** - Was the appraisal made subject to repairs, replacements, alterations, conditions or completion per plans and specifications? If so, you must obtain a Satisfactory Completion Certificate. The certificate must clearly indicate compliance with all conditions and requirements of the original appraisal and must be signed by the appraiser.~~

3. ~~**Hazard Insurance** - The residence must be covered by a policy of hazard insurance typically known as a homeowner's insurance policy maintained by the borrower meeting the following requirements:~~

a. ~~The coverage must include all fire and extended coverage risks customarily insured against in the geographical area in which the property is located. The policy must provide a minimum fire and extended coverage insurance on a replacement cost basis in an amount not less than (i) one-hundred percent (100%) of the replacement cost or (ii) the outstanding principal balance of the Mortgage Loan, whichever is less;~~

b. ~~The hazard insurance policy must be in effect on the date of closing of the Mortgage Loan;~~

c. ~~Insurance policies must be sufficient in amount and scope of coverage to meet the requirements of any private mortgage insurer and/or pool insurance;~~

d. ~~Policies containing a deductible clause up to $500 applicable to either fire or extended coverage, or both, are acceptable in areas where these provisions are mandatory or customary;~~

e. ~~The **Loss Payee** must be the lender "and/or its successors or assigns."~~

4. ~~**Notice to the Servicer** - All policies of hazard insurance must contain or have attached the standard mortgage clause customarily used in the area where the home is located. Each policy must provide that the insurance carrier notify the Servicer, at least ten days in advance of the effective date, of a reduction in the coverage or cancellation of the policy.~~

5. ~~**Flood Insurance** - We require flood insurance for any property located in a special flood area that has federally mandated flood insurance purchase requirements. The Lender/Servicer must ensure that flood insurance is maintained and that ir provides coverage at least equivalent to what's provided under the National Flood Insurance Program. Flood insurance must remain in force for the term of the loan in an amount at least equal to 1/3 of the outstanding principal balance of the loan. Flood insurance policies should generally be in the form of standard policies issued by members of the National Flood Insurers Association.~~

~~The **maximum deductible** should be the lesser of $1,000 or 1% of the policy face amount.~~

6. ~~**Escrow Account** - You must establish an escrow account and collect escrow payments along with the monthly principal and interest payments.~~

~~This requirement is necessary due to Rating Agency demands on the Authority. Since the mortgages are the source for repayment of the bond debt, the Rating agencies want assurance that the properties will always have insurance and can not be sold at tax sales. The term "escrow payments" means sums deposited toward the payment of real estate taxes and assessments, hazard insurance premiums, and primary mortgage insurance premiums.~~

~~7. **Preparing Final Documents** - You can now prepare the final documents to be used at closing. You must use current standard FHA, VA, FNMA/FHLMC or USDA Rural Development documents which include:~~

~~a. **Note** - The debt of each mortgage loan must be evidenced by a properly executedNote made payable to your institution;~~

~~b. **Mortgage** - Each mortgage loan must be secured by a Mortgage or Deed of Trust, if applicable, constituting a first lien on the residence financed bu the mortgage loan;~~

~~c. **ADFA Rider** - (Exhibit D) The Provisions of this Rider substantially modify the terms of the Mortgage and must be attached and recorded with the Mortgage;~~

~~d. **Assignment of Mortgage** - (Exhibit I) Each mortgage loan must be assigned by your institution to the Authority by a property executed and recorded Exhibit I-Assignment of Mortgage/Deed of Trust.~~

~~8. **Fees and Charges of Lender** - You may collect actual amounts expended for customary closing costs, including mortgage insurance premiums, inspection fees, survey charges, escrow agent's fees, filing and recording fees, transfer taxes, documentary stamps and document preparation fees paid to the closing agent.~~

~~9. **Reaffirmation of Affidavits** - At closing both the Exhibit C-2 Borrowers Affidavit and Certification and Exhibit C-3 Sellers Affidavit and Certification must be completed. The seller may appoint an agent or representative to execute the reaffirmation at closing. We will require a copy of the recorded power of attorney and the representative must indicate in what capacity he/she is signing (attorney in fact, power of attorney, etc.)~~

~~**Exhibit L is the checklist used by the Authority in reviewing the closing/purchase file. We strongly urge you to use this checklist as well as Exhibit H-1-Preliminary Approval and CompliancePackage.**~~

~~B. Loan Closing and Submission Documents~~

~~At this point you should be ready to close the loan and disburse funds. Once again you should look over our checklist for reviewing purchase files to make sure that your closing instructions cover the necessary items. In order to be eligible for purchase by the Authority and the Master Servicer, each loan must be delivered to the Authority within **10 days** of closing. The lender must deliver to the Authority the following documents, arranged in the order listed with first item on top.~~

~~1. **Documents**~~

~~a. The original Exhibit L-ADFA Required Closing Documents~~

~~b. Check for 1% commitment fee payable to ADFA~~

~~c. Typed copy of final loan application with appropriate addendums (signed by all parties, including lender)~~

~~d. Copy of HUD -1 Settlement Statement (signed by all parties)~~
~~(i) Must reflect \$100.00 credit for reservation fee~~
~~(ii) Must reflect \$65.00 tax service fee paid by seller~~
~~(iii) If refund is shown on line 303 to buyer for more than \$10.00 a letter of explanation must be included also~~

~~e. Copy of Note~~

~~f. Copy of Mortgage/Deed of Trust and Exhibit D Rider and any other applicable riders~~

~~g. Copy of Exhibit I-Assignment of Mortgage/Deed of Trust~~

~~h. Original Exhibit C-2-Borrowers Affidavit and Certification~~

~~i. Original Exhibit C-3-Sellers Affidavit and Certification~~

~~j. Original Exhibit X-2-Notice to Mortgagor of Information Regarding Potential Recapture Tax (NOTE: Please be sure you have inserted the appropriate County page for the sample table (X-2 page 4) and completed the top of the page with the borrowers information. A copy of the completed document should be given to the borrower at closing.)~~

~~k. Copy of Subordinate Note for Downpayment Assistance Loan (if applicable)~~

~~l. Copy of un-recorded Subordinate Mortgage for Downpayment Assistance Loan (if applicable)~~

~~m. Copy of un-recorded Assignment of Subordinate Mortgage for Downpayment Assistance Loan (if applicable)~~

~~n. Copy of Truth-In-Lending Disclosure form for Downpayment Assistance Loan (if applicable)~~

~~o. Copy of Certificate of Completion for Homebuyer Education Course for Downpayment Assistance Loan Program (if applicable)~~

~~p. Copy of Title Policy and Endorsement reflecting the recording of the Subordinate Mortgage and Assignment to ADFA for Downpayment Assistance Loan (if applicable - due to ADFA within 60 days of closing)~~

~~q. Copy of the Hazard Insurance Policy and Endorsement reflecting ADFA as second mortgagee if borrower received Downpayment Assistance Loan (if applicable)~~

~~After the file is reviewed, you will receive by fax the Exhibit L signed by an authorized ADFA signature. Upon receipt of the faxed document you may then forward the closing documents to the Master Servicer. The originator is responsible for the timely transfer of loan data to the servicer. It is of primary importance that the mortgagor be protected in this transfer.~~

~~The Authority has advised you of who will be servicing the loan and with the name of a contact person. You should establish contact with the contact person and become familiar with the servicer's delivery guide, loan set-up requirements and transfer procedures.~~

~~**If you have any questions regarding this data, you should contact the Master Servicer. IT IS YOUR RESPONSIBILITY TO GET COMPLETE DOCUMENTATION TO THEM.**~~

~~You are also responsible for advising the mortgagor of the servicing change. This is done through the "goodbye" letter, as required by RESPA. **Pay close attention to the minimum time requirement of RESPA**. The contents of the "goodbye" letter should be coordinated with the servicer, especially regarding such items as when and where to send payments and customer service numbers.~~

~~If you receive a payment after the transfer, it is your responsibility to forward all paymentsin a timely manner.~~

~~If a problem arises regarding the transfer of the loan, you should contact your servicer and the Authority.~~

~~(i)~~d. Residence Located in a Targeted Area. An Eligible Borrower need not qualify as a First-Time Homebuyer if the residence that will be financed with a Mortgage Loan is located within a Targeted Area.

e. Dower/Curtesy. Under Arkansas property law, dower and curtesy constitute a right (or said another way, in this case, an inchoate, or incomplete, interest) prior to the time a person becomes a widow or widower. Upon the death of a person's spouse, however, this right matures into a life estate in real property. Thus, so long as a person is not widowed, there is no question with regard to dower or curtesy that an Eligible Borrower may qualify as a First-Time Homebuyer, but if the Eligible Borrower is a widow or widower, the Mortgage Lender must inquire as to whether such Eligible Borrower's rights of dower or curtesy (as the case may be) had matured into a life estate, which would be a disqualifying interest for the purposes of the First-Time Homebuyer rules.

3. Required Documentation

a. Tax Returns for Prior Years. It is relatively easy to document the Eligible Borrower's compliance with the Tax Code requirements for a First-Time Homebuyer. The primary form of documentation is the Federal income tax returns. Each Eligible Borrower, co-borrower, and any other occupant of the Single Family Residence of 18 years or older must provide copies of his or her federal tax returns for the last three (3) years, including all schedules and copies of his or her W-2(s). Copies of state tax returns are not required. ADFA will review the returns to see if the Eligible Borrower, co-borrower or other occupant of the Single Family Residence of 18 years or older has claimed deductions for home mortgage interest or real estate taxes. In addition to looking for deductions, the Authority will check to make sure that the name of the taxpayer shown on the first page of each return matches the name or former name of the Eligible Borrower. Each first page must also reflect the taxpayer's address and social security number. The return MUST be signed and dated. Extensions filed for late tax payment should be included at application with a copy of the actual return forwarded to the Authority at time of filing.

IF DEDUCTIONS WERE CLAIMED FOR MORTGAGE INTEREST OR FOR REAL ESTATE TAXES, THE ELIGIBLE BORROWER MUST SUPPLY A WRITTEN EXPLANATION OF THESE ITEMS, ALONG WITH SUPPORTING DOCUMENTATION. THE BURDEN OF PROOF WITH RESPECT TO QUALIFICATION AS A FIRST-TIME HOMEBUYER RESTS WITH THE ELIGIBLE BORROWER AND THE FAILURE TO ADEQUATELY EXPLAIN ANY MORTGAGE INTEREST OR REAL PROPERTY TAX DEDUCTIONS WILL RESULT IN THE DISQUALIFICATION OF THE ELIGIBLE BORROWER FROM THE SINGLE FAMILY PROGRAM.

During the period of January 1 through April 15, the question arises as to which three years of tax returns should be submitted. ADFA must have the three most recent returns. So the answer to the question depends on whether the Eligible Borrower has or has not filed a return for the prior year.

> Example: On February 20, 2002, the Eligible Borrower makes application for a Mortgage Loan. If the Eligible Borrower has already filed his or her 2001 tax returns, then the Mortgage Lender must obtain a copy of the 2001 return along with the 2000 and 1999 returns. If the Eligible Borrower has not yet filed a 2001 tax return, then the Mortgage Lender must obtain copies of the 2000, 1999, and 1998 returns. Here is where it can get a little tricky. If the Eligible Borrower has provided the 2000, 1999 and 1998 returns and then, prior to the Closing, files a return for 2001, then the 2001 federal tax return will be required before ADFA can approve the Mortgage Loan for purchase. We strongly recommend that you obtain the return that is due on April 15 BEFORE you close the Mortgage Loan. This assures the Mortgage Lender that the Eligible Borrower, co-borrower or other occupant of the Single Family Residence of 18 years or older continues to meet the requirements for a First-Time Homebuyer.

b. Tax Returns for Persons Divorced Within Three Years. The following represents some of the more common approaches used in divorce situations that ADFA recommends:

- Mortgage Lenders should ask the Eligible Borrower whether he or she owned a residence during the previous marriage.
- The Mortgage Lender should review the divorced Eligible Borrower's prior year tax returns to see if deductions were taken for home mortgage interest or real estate taxes. If none were taken, you are probably OK.
- Mortgage Lenders should obtain a copy of the divorce decree along with any other relevant agreement, such as an agreement for child support, etc. Review the decree to determine if there is any language which may give an indication of prior residence ownership. References

to such things as a quitclaim deed, a transfer of interest, a release of obligation or a hold harmless agreement are terms often used when settling property disposition. If these references are present, please forward a copy of the relevant document to ADFA for an opinion.

Example: An Eligible Borrower divorced two years ago. The divorce decree indicates that the Eligible Borrower split the proceeds from the sale of the former residence of which she was on title. Does this Eligible Borrower qualify as a First-Time Homebuyer? Based upon this information alone, the answer is no. However, if the Eligible Borrower presents documentation (for example, rent receipts) that substantiate that for 14 months prior to the divorce, the Eligible Borrower was separated and living in an apartment, the Eligible Borrower may in fact qualify. Even though this Eligible Borrower clearly had an ownership interest in a residence, it was not the Eligible Borrower's "principal place of residence;" therefore, the ownership interest is viewed similarly to an ownership of investment property. The Eligible Borrower satisfies the 3-year, non-ownership rule and can be treated as a First-Time Homebuyer.

c. Extension for Filing Tax Return. If an Eligible Borrower has requested an extension to file a tax return, the Mortgage Lender must obtain a copy of the filed extension request and all W-2's. In the event that the return is filed prior to the Closing, copies of the return must be submitted to the Authority.

d. If an Eligible Borrower Did Not File a Tax Return. If the Eligible Borrower was not obligated to file a Federal tax return during one or more of the prior three years (for example, if the Eligible Borrower's level of income did not trigger a filing requirement), then the Eligible Borrower must complete Exhibit 5-B, "Mortgagor's Application Affidavit and Certification." THIS EXHIBIT MAY NOT BE USED IN THE CASE OF LOST OR MISPLACED TAX RETURNS. An Eligible Borrower may include multiple years on one form; however, a separate form must be used for EACH separate Eligible Borrower.

e. Lost or Misplaced Tax Returns. You will be amazed how many people can't find copies of tax returns! If the Eligible Borrower cannot find copies of the tax returns, he or she must request and provide ADFA with certified copies or original transcripts of the missing returns from the Eligible Borrower's local IRS office. **There is no waiver or substitute for federal tax returns!** The transcript as provided by IRS must contain line-by-line information. Transcripts MUST bear the IRS stamp, date and official signature. Informational or condensed forms provided by tax private preparation companies are not approved for use with ADFA loans. Upon receipt of the copy of the tax returns or the transcript, the Mortgage Lender must review them in order to determine that no deductions were taken for home mortgage interest or real estate taxes.

f. Special Documentation with Regard to Mobile Homes. ADFA requires photographic evidence of the attachment of the axles and hitch to any mobile home; the photographs must be included with the Mortgage Loan File at prior approval. We advise whoever is taking the pictures to use a flash attachment since most cameras take poor pictures in low light/no light areas such as the underside of a mobile home. In addition, Eligible Borrowers must execute Exhibit 5-E, "Supplemental Affidavit and Certification - Mobile Home."

4. Special Issues Dealing With Prior Mortgages

The Eligible Borrower fails to qualify as a First-Time Homebuyer if he or she has had a prior mortgage loan or other financing on the subject residence, with the following exceptions:

a. Bridge loans. A prior mortgage loan obtained for temporary financing, such as a construction loan or bridge loan, is acceptable, provided that the prior mortgage loan must have a term of twenty-four (24) months or less.

b. Lease with Option to Purchase. When a credit toward purchase price is provided under a lease with option to purchase, impermissible Seller financing is established. In this situation, the Eligible Borrower/renter is not an eligible First-Time Homebuyer. However, an Eligible Borrower may qualify as a First-Time Homebuyer if the lease only provides a right of first refusal or an option to purchase and no portion of the rent paid has been or will be credited to the purchase price; or if the term of the lease is for no more than 24 months as of the date of Closing.

c. Required Documentation. In order to substantiate any of the above exceptions, the financing document (mortgage, contract or lease) must have been recorded in the relevant county real estate records at the time of execution. A certified copy of the relevant documents must be obtained from the county recorder's office and provided to the Authority.

B. Household Income Requirements

1. General

Of the three compliance issues we review, Household Income is by far the most difficult and frustrating. In fact, the number one reason for rejection of a loan application under the Single Family Program is due to the Eligible Borrower being "over income." In the context of this issue, the term "Eligible Borrower" means the Eligible Borrower as well as any co-Eligible Borrower, and any person who is 18 or older who will reside in the residence, collectively, including those not taking title. The Eligible Borrower must satisfy each of the following requirements.

a. Applicable Income Limits. The Eligible Borrower's Annual Household Income must not exceed the Maximum Household Income Limit shown in Schedules III and IV. Please note that the Maximum Household Income Limit varies depending on the county in which the residence is located and whether the residence is located within a Targeted Area. The Maximum Household Income Limit also varies depending on the household size of the Eligible Borrower.

HUD publishes median household income figures that are the basis for determining the Maximum Household Income Limits. The Tax Code requires the Authority to set the Maximum Household Income Limit at the following percentages of the median household income for the area of the State in which the Eligible Borrower intends to reside:

Household Size of	**One (1) or two (2)**	**Three (3) or more**
Targeted Areas	120%	140%
Non-Targeted Areas	100%	115%

NOTE: HUD issues revised figures periodically and generally on an annual basis. The Authority will notify all Mortgage Lenders in advance of the effective date when Maximum Household Income Limits are revised.

b. Calculating the Eligible Borrower's Annualized Gross Income Generally. The Eligible Borrower's Annual Household Income is equal to the Eligible Borrower's annualized gross income. Annualized gross income is calculated by multiplying the Eligible Borrower's gross monthly income by twelve (12). That's right. The Tax Code requires a twelve-month forward projection of the Eligible Borrower's gross monthly income. Gross monthly income is the sum of monthly gross pay as well as additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation, net rental income, and so forth. Gross monthly income also includes alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, income received from business activities or investments and also deferred income such as 401(k) plan elective deferrals. In other words, **ALL INCOME FROM ALL SOURCES.**

c. Date of Income Determination. The date used to determine the Eligible Borrower's Annual Household Income is the date of Closing of the Mortgage Loan.

2. Special Areas of Concern With Regard to the Household Income Requirements

a. Commission, Bonus and Overtime Compensation. Please note that calculating an Eligible Borrower's Annual Household Income begins to become more difficult with regard to any Eligible Borrower who works irregular overtime, receives bonuses and/or commission income, or is self-employed. Generally, Mortgage Lenders must average commissions, bonuses and overtime over the last two (2) years, using tax returns and current year-to-date pay stubs as the basis for such calculation. If there is a clear pattern of such income either increasing or decreasing, emphasis will be placed on the past twelve (12) month period.

b. Self-Employed Eligible Borrowers. Generally, Mortgage Lenders must determine the Annual Household Income of a self-employed Eligible Borrower by averaging his or her income over the last two (2) years using both Federal income tax returns as well as a profit and loss statement for the current year prepared by a third party or prepared by and signed by the Eligible Borrower. The effect of legitimate operating expenses may be taken into account when calculating income for this type of Eligible Borrower. As with commission, bonuses and overtime, emphasis must be placed on the past twelve (12) months of income activity if there is a clear pattern of increasing or decreasing income.

c. Child Support/Alimony. Child support and alimony payments must be included in the calculation of Annual Household Income regardless of whether the Eligible Borrower is divorced or separated or a single person. Proof of amounts received is required from OCSE.

d. Married or Separated Eligible Borrowers Taking Title Individually. Mortgage Lenders may encounter a married or separated Eligible Borrower who wishes to apply for a Mortgage Loan and take title to the residence in his or her name only and not jointly with his or her spouse. This is acceptable, but only after documenting that the Eligible Borrower would still be eligible if the spouse were also to apply and take title. In other words, both Eligible Borrower and his or her spouse must be First-Time Homebuyers and have a combined Annual Household Income within the applicable Maximum Household Income Limit.

If a spouse of an Eligible Borrower (or any other occupant 18 years and older and residing in the home) is not taking title to the Single Family Residence, such spouse (or resident) must sign Exhibit 5-A along with the Eligible Borrower.

3. Required Documentation

a. General. As noted above, Annual Household Income is calculated by annualizing an Eligible Borrower's gross monthly income as of the date of the Closing of the Mortgage Loan. Because of the obvious practical problems presented by the determination date and this method in general, the Tax Code allows the Mortgage Lender (and ADFA) to rely upon the following documentation:

- Information obtained from loan application documents; i.e., the Affidavit of Buyer included in the initial loan application, copies of the two most recent pay stubs and tax returns, and the like; and
- A re-affirmation by the Eligible Borrower at Closing that the information set forth in the Affidavit of Buyer (including Household Income) is still true, correct and complete.

NOTE: IT IS VERY IMPORTANT TO DOCUMENT ANY AND ALL CHANGES WITH RESPECT TO THE FINANCIAL CONDITION OF THE BORROWER THAT MAY OCCUR AFTER PRIOR APPROVAL AND BEFORE CLOSING. IF A BORROWER'S HOUSEHOLD INCOME EXCEEDS THE APPLICABLE MAXIMUM HOUSEHOLD INCOME LIMIT, ADFA WILL NOT PERMIT THE PURCHASE THE MORTGAGE LOAN. IN OTHER WORDS, AN ELIGIBLE BORROWER WOULD BE WELL ADVISED NOT TO NOT BE A "SUPERSTAR" ON THE JOB UNTIL AFTER CLOSING. BIG PROMOTIONS MIGHT MAKE THE ELIGIBLE BORROWER INELIGIBLE. ALSO, BE CAUTIOUS OF ANY SITUATION WHERE AN ELIGIBLE BORROWER FALLS IN LOVE AND TAKES ON A ROOMMATE. IF THIS HAPPENS, AND IT HAS, ANNUAL HOUSEHOLD INCOME MUST BE RECALCULATED ALL OVER AGAIN.

b. Commission, Bonus or Overtime. Where commission, bonus or overtime income cannot be estimated or anticipated with relative certainty, letters of explanation from the Eligible Borrower and his or her employer may be appropriate. Some Eligible Borrowers and realtors might say that certain previous income sources such as overtime, commissions or bonuses were "one-time events" and will never occur again. Mortgage Lenders must verify these statements with an unbiased third party, such as the Eligible Borrower's employer.

c. Verifications of Employment. Mortgage Lenders are required to obtain a verification of employment. This information may not be totally accurate, but it usually contains a breakdown of overtime, commissions, bonuses, when next raise will occur, etc.

d. Self-Employed Eligible Borrowers. As noted above, Mortgage Lenders must obtain from any self-employed Eligible Borrower both Federal income tax returns for the past two years as well as a profit and loss statement for the current year either prepared by a third party, such as a certified public accountant, or prepared by and signed by the Eligible Borrower. If applicable, self-employed Eligible Borrowers who have an ownership interest in a partnership, a limited liability company or a corporation must provide Federal income tax returns for such entities.

NOTE: A PROFIT AND LOSS STATEMENT MAY ALSO BE REQUIRED FROM AN ELIGIBLE BORROWER WHO IS EMPLOYED FULL TIME, BUT SHOWS OTHER BUSINESS INCOME LOSS/GAIN ON HIS OR HER FEDERAL INCOME TAX (SEE LINE 12 OF FEDERAL INCOME TAX FORM 1040).

e. Child Support/Alimony. With regard to Eligible Borrower s receiving child support or alimony payments, Mortgage Lenders must obtain a copy of the appropriate (and most current) court decree, which sets forth the amount of the support. As an alternative, if the payments for support are being made directly to the State of Arkansas, Mortgage Lenders may obtain a "print-out" sheet from the

State which displays all of the information needed to determine the amount of income to include for the Eligible Borrower. Proof of amounts received is required.

f. Married or Separated Eligible Borrowers Taking Title Individually. The spouse not taking title must execute Exhibit 5-B (Mortgagor's Application Affidavit and Certification) and Exhibit 7-L (Mortgagor's Closing Affidavit and Certification) if tax returns were not filed due to either age or non-obligation of filing returns, and must also provide the previous three years' tax returns with W-2's attached and his or her two most recent pay stubs. If after review, the loan application can still be approved, the spouse not taking title must waive homestead rights. (Please see the Closing section of this Program Guide for proper language to waive homestead rights.)

4. Special Issues Dealing With Other Miscellaneous Forms of Income

a. Deferred Income. Annual Household Income also includes all deferred income such as an employee elective deferrals (such as for a cafeteria plan) or contributions to a pre-tax retirement plan, the most common such plan being the 401(k) plan. Furthermore, any amounts that the employer contributes into a retirement plan that can be withdrawn (not borrowed against) must be included in the Eligible Borrower's Annual Household Income calculation, even if such withdrawal will lead to a penalty or tax liability for the participant/Eligible Borrower. The key is whether the contributions can be "withdrawn" vs. "borrowed against"! The following steps can be used to make this determination:

- Calculate Annual Household Income and include the employer contributions and employee elective contributions/deferrals. If the Eligible Borrower's income does not exceed the applicable Maximum Household Income Limit, you need to do nothing more.
- If the elective deferred income causes the Eligible Borrower to exceed the Maximum Household Income Limit, then the Eligible Borrower should obtain from his or her plan administrator a copy of the section from the plan document that provides for any restrictions governing withdrawals from the plan. If the plan document states that the contributions can only be borrowed against and cannot be withdrawn, then these amounts are not included in the Annual Household Income calculation.
- In all instances, the Eligible Borrower's elective deferrals or contributions must be included in the Annual Household Income calculation.

b. Interest Earnings. If an Eligible Borrower has a large savings account and there will be savings left after Closing, interest must be imputed on the savings account assuming a 3.25% interest rate (which is determined by HUD and subject to change from time to time).

c. Dividends From Stock and Bonds etc. Annual Household Income includes realized earnings from dividends paid from investment portfolios unless the portfolio is liquidated prior to Closing.

d. Temporary or Nonrecurring Income. Temporary, nonrecurring or sporadic income (including gifts) or income derived from "straight-line depreciation" is not included in the calculation of Annual Household Income. Included in this category are such things as: business expense reimbursements; amortization of capital expenses; per diem allowances; reimbursements for moving expenses; or income used to pay for operating expenses, as often seen with the self-employed Eligible Borrower.

C. Purchase Price Limitations and Qualified Dwellings

1. General

The residence being financed must be a Qualified Dwelling and must not exceed the Maximum Purchase Price for the area in which it is located. The Eligible Borrower must acquire a fee simple interest in the real estate and the residence being financed must become the principal residence of the Eligible Borrower within 60 days after the Closing of the Mortgage Loan.

a. Types of Residence. The following types of residences qualify:

- A single family detached residence, including a factory-made home that is permanently affixed to real property
- A townhouse
- A Condominium Unit
- A Qualified Duplex, provided the structure was first occupied as a residence at least 5 years before the execution of the Mortgage.

b. Acquisition Cost Limits. In order to qualify for participation in the Single Family Program, the residence must have an Acquisition Cost no greater than the allowable Maximum Purchase Price shown in Schedule II. Please note that the Maximum Purchase Price varies depending on whether the residence is located within a Targeted Area; the county in which the residence is located; whether the residence is new or existing construction; and whether it is a duplex. The U.S. Treasury Department publishes Average Area Purchase Prices which are the basis of setting the Single Family Program Maximum Purchase Price limits. The Maximum Purchase Price limits represent 90% of average area median purchase price for non-Targeted Area residences and 110% of average area median purchase price for Targeted Area residences As with the Maximum Household Income Limits, the Treasury Department will periodically issue new figures. ADFA will notify all Mortgage Lenders in advance of the effective date when the Maximum Purchase Price limits are revised.

It has been the experience of the Authority that the Treasury Department limits do not always seem realistic. In fact, it would be safe to say that on occasion they aren't even close. In order to address this problem, the Authority conducts its own data collection every January. We obtain year-end data from the various boards of realtors for the existing residences. New construction data is not so easy. We must rely upon participating Mortgage Lenders to obtain sales data for us. So, if you don't like the numbers reflected, give us a call and we will work with you in obtaining more accurate data and include it with our annual Private Letter Ruling Request that we send to the IRS every year.

c. Determination of Acquisition Cost for a Particular Residence. In theory, determining the Acquisition Cost should be easy. Generally, it is equal to what is shown on the Standard Residential Purchase Contract and reflected on the Affidavits of Buyer and Seller. If the numbers match and the Purchase Price of the residence is less than the Maximum Purchase Price limit, then the residence should qualify. If this sounds too simple, you are starting to catch on. The Tax Code (and our lawyers) have an enormously difficult time in dealing with "simple." We must approach this Tax Code compliance issue from a viewpoint more closely resembling that of an IRS auditor: "there is something wrong here and I'm going to find it!"

As defined by the Tax Code, Acquisition Cost includes all amounts paid, either in cash or in kind, by the borrower (or any party related to the borrower) to the Seller (or to any party related to the Seller) as consideration for the residence. This includes the reasonable cost of completing an incomplete or unfinished residence (incomplete or unfinished means that occupancy is not permitted under law, or that the residence lacks fixtures or architectural appointments normally included or needed to provide adequate living space for the family members who intend to occupy the residence). Completion costs are included in the Tax Code definition of Acquisition Cost whether or not the cost of completing construction is to be financed with a qualified Mortgage Loan. In other words, you must include everything the borrower pays the Seller or incurs to finish out the residence, minus the items listed below, to purchase the residence.

Acquisition Cost does not include:

- Usual and reasonable settlement or financing costs (including titling and transfer costs, title insurance, survey fees, credit reference fees, legal fees, appraisal expenses, "points" which are paid to the borrower, or other similar costs). Please note that, in order for these costs to be excluded from the definition of Acquisition Cost, they must not exceed usual and reasonable charges for these expenses.
- The unpaid value of services performed by the borrower or members of his or her family in completing or finishing the residence. **THIS IS BETTER KNOWN AS SWEAT EQUITY.**
- Items of personal property which are not fixtures and/or are permanently affixed to the property.
- The cost of minor repairs, fix-ups, etc. performed after Closing and paid for by the borrower.

When a Standard Residential Purchase Contract includes personal property, the borrower and Seller must establish a fair market value for the personal property. The fair market value must be deducted from the Purchase Price when calculating the Acquisition Cost and the loan-to-value ratio. We are not going to worry about such things as old refrigerators and stoves, draperies or other typical items that really have no value to the Sellers. We will concern ourselves if the Standard Residential Purchase Contract includes the $10,000 bass boat parked in the garage or the new stereo system. If in doubt, call the Authority.

2. Special Areas of Concern With Regard to Residence Qualification

The following are additional standards and requirements of a Qualified Dwelling.

a. New Construction. To qualify as new construction, the residence cannot ever have been occupied by anyone. A model home qualifies, provided it was never rented or occupied as a residence prior to being sold.

b. Properties With More Than 5 Acres. The Tax Code prohibits the Authority from financing a residence located on land in excess of that needed to "reasonably maintain basic livability." This prohibition has been generally interpreted to mean land not exceeding five (5) acres. Therefore, if the land on which the house sits is in excess of five acres, you should determine that the property meets this standard and provide ADFA an explanation to justify the determination.

c. Properties With More Than One Livable Structure. Properties containing a main structure and a "coach house" can be cause for frustration. Unfortunately, the only solid advice we can give you is to say that we will consider these loans on a case-by-case basis. Our concern gets back to the issue of what constitutes "basic livability." We have to be confident that there is no intention on the part of the Eligible Borrower to use the additional structure in a trade or business. In some cases we can rely on a sworn affidavit from the Eligible Borrower stating that the "coach house" will not be used in any trade or business, including use as rental property. But, depending upon the appearance of the structure, statements, or comments made by the appraiser, the real estate tax numbers (one or two) or other circumstances surrounding the intended use of the additional dwelling, we may be forced to deny the Mortgage Loan. Again, the key is to contact us for advice if you encounter this situation.

d. Appraised Value Exceeds Program Limit. If the appraised value of the property exceeds the Maximum Purchase Price, do not assume that the loan will not qualify as a Mortgage Loan; we still may be able to approve the Mortgage Loan. The issue that needs to be addressed is whether there is a deliberate attempt to circumvent the Maximum Purchase Price limits or whether the Eligible Borrower just got a good deal. If the appraised value exceeds the Maximum Purchase Price Limit but the Acquisition Cost is below the limit and transaction is clearly an "arm's length" transaction (not between relatives, for example), we usually conclude that our Eligible Borrower bargained for a "good deal." We may require a statement from the Eligible Borrower and Seller indicating that no relationship exists if we are unclear about the relationship between the Eligible Borrower and the Seller. If you discover that the transaction is NOT "arm's length," then you will be required to sell the loan to some other investor. Generally, the residence is not eligible if the appraised value exceeds 110% of the Purchase Price.

e. Land Owned By Eligible Borrower. If the Eligible Borrower intends to have a residence built on land already owned, the cost of such land will be excluded from the Tax Code definition of Acquisition Cost ONLY IF such land has been owned by the borrower for at least two (2) years prior to the date on which construction of the land begins. If the land was purchased less than two years ago, the cost of the land is included in the Acquisition Cost. In order to determine whether to include the cost of the land or not, you should obtain a certified copy of the deed from the county recorder's office and submit it to the Authority when you submit the file. Likewise, the contract of sale or the settlement statement for the land can be used to substantiate such land's cost.

3. Required Documentation

Copy of the Standard Residential Purchase Contract between borrower and Seller.
Copy of the appraisal.
Certified copy of deed for any property owned by Borrower prior to loan application.

4. Special Issues Dealing with Benefit Recapture

The Federal government views Eligible Borrower who purchase a residence with Mortgage Loans financed with the proceeds of tax-exempt Bonds as having received a "subsidy" because of the below-market Loan Rate. The Tax Code requires that an Eligible Borrower who has taken advantage of the below-market Loan Rate may be required to repay part or all of this subsidy to the Federal government if: the Eligible Borrower sells the residence within nine (9) years of purchase; realizes a capital gain; and has had significant increases in Annual Household Income since the Mortgage Loan was made. The repayment is in the form of a tax and is commonly referred to as **"Recapture."**

Due to this provision in the Tax Code, ADFA requires that the potential Eligible Borrower be informed of this possible taxation at the time of loan application. The Notice to Eligible Borrower, attached as Exhibit 5-F, must be provided to and signed by the Eligible Borrower at the time of application. By evidence of the Eligible Borrower's signature, we are assured that the Eligible Borrower has been given notice. Two (2) additional notices will be provided to the borrower. One is incorporated into the Affidavit of Buyer and the other will be signed by the Eligible Borrower at Closing.

a. How Does Recapture Work. The Tax Code assumes that the amount of the subsidy realized by the borrower is equal to 1.25% per year. This recapture rate increases in increments of 1.25% for the first five years of residence ownership; then, it declines by the same incremental rate through the ninth year of ownership. The rate of recapture is multiplied by the original Mortgage Loan amount to determine the amount of recapture tax to be paid. The following chart shows the recapture rates by year:

YEAR OF RESALE	RECAPTURE TAX RATE
1	1.25%
2	2.50%
3	3.75%
4	5.00%
5	6.25%
6	5.00%
7	3.75%
8	2.50%
9	1.25%
10	No recapture tax due

As you can see, the maximum amount of the recapture tax increases during the first five years of ownership and decreases for the next four years. After you have informed your borrower of the potential for a recapture tax, let the borrower know that in most cases (estimated to be around 90% - 95%), a recapture tax will **not** need to be paid! Several factors will determine whether the recapture tax must be applied. The factors include: the year in which the residence is subsequently sold; the circumstances surrounding this disposition of the residence; the household size and Annual Household Income at the time of resale; and the amount of capital gain made upon the resale.

b. Recapture Tax Is Not Paid Under the Following Conditions**:**

- The Eligible Borrower lives in the residence for more than nine years.
- The Eligible Borrower does not realize capital gain upon resale.
- The Eligible Borrower dies.
- The Eligible Borrower's Annual Household Income at the time of resale has not increased to an amount greater than the Maximum Household Income Limit for the Single Family Program calculated with a 5% annual growth rate.

Let's focus on this last reason, since we feel that it will be the primary reason for not having to pay the recapture tax. Page 5 of Exhibit 7-P, signed by the borrower at the Mortgage Loan Closing, shows a worksheet of the real or perceived risks involved with recapture. We believe that, in most cases, the Eligible Borrower will not have to pay a recapture tax because his or her Annual Household Income likely will not exceed the Maximum Household Income Limit at the time of resale. As you will see in reviewing the chart, we have taken the Maximum Household Income Limit for the Single Family Program and projected it with a 5% annual growth rate. If the Eligible Borrower's income is at or below this adjusted amount at the time of resale, the Eligible Borrower pays no recapture tax! Since our typical borrower's Annual Household Income is well below the Maximum Household Income Limit, it would require an Eligible Borrower to realize significant increases (7% - 15% or greater) annually before exceeding the limit.

c. Who Are the Eligible Borrower s Most at Risk?

- Single Eligible Borrowers. If they get married they can double their Annual Household Income overnight.

- Eligible Borrowers who are very close to being over income at the time of loan application. They will be limited to Annual Household Income growth of no more than 5% annually if they expect to stay beneath the allowable limits.
- Young professionals or "superstars" who anticipate significant salary increases within the near future and do not intend to stay in the property for more than nine years.

d. How Does the Borrower Pay the Tax? If the recapture tax must be paid, it will be part of the Eligible Borrower's income tax computation when the Eligible Borrower files his or her annual income tax return for the year in which the Eligible Borrower resells the residence.

e. What If the Eligible Borrower Refinances? It is hard to believe that anyone would want to refinance one of our great rates. However, let's assume for discussion purposes only that an Eligible Borrower wishes to refinance. If this occurs, the recapture tax rate (see chart under "How Does Recapture Work") freezes in the year of refinance. As long as the Eligible Borrower continues to reside in the residence, no recapture tax is due.

> Example: The Eligible Borrower refinances in the third year. The recapture tax rate for year three is 3.75%. In year four the rate declines to 2.50%, year five it drops to 1.25% and year six it goes away. In any event, the Eligible Borrower would not pay any recapture tax until a resale of the residence occurs and the recapture tax rate would be the rate for the year of the subsequent sale. All other aspects of the recapture provision remain the same.

D. Mortgage Loan Assumptions

Often a purchaser wants to purchase a home that is subject to a previous mortgage, and the purchaser may want to assume all the rights and obligations of the prior owners under the previous mortgage. In such a case, the Master Servicer may release (subject to any required FHA, USDARD, VA and GNMA, or USDARD, PMI Insurer and Fannie Mae approval, as applicable, and in accordance with currently-applicable FHA, USDARD, VA and GNMA or USDARD, PMI Insurer and Fannie Mae rules and regulations) the prior owners and enter into or take an assumption agreement with or from the new purchaser. However, the Master Servicer can only agree to an assumption with ADFA's written approval.

a. What does it take to get ADFA's approval on an assumption? In order to get ADFA's approval, the mortgage assumption must satisfy the mortgage eligibility requirements:

(i) the purchaser is an eligible Borrower, subject also to the requirement of initial and continued occupancy of the residence as his or her primary residence;

(ii) the Acquisition Cost of the Single-Family Residence does not exceed limits then applicable for a Single-Family Residence in Arkansas;

(iii) the Mortgage Loan continues to be insured under the insurance policies described in this Agreement and approved by the Master Servicer;

(iv) the Purchaser's current Annual Family Income does not exceed the Maximum Household Income Limit currently in effect; and

(v) the Mortgage Loan continues to comply with the requirements of FHA, USDARD or VA regulations and the GNMA Guide, or the requirements of USDARD or the PMI Insurer and the Fannie Mae Guides, as applicable.

b. How does ADFA determine whether these requirements are met? Whether or not these requirements are met is determined when the mortgage is assumed and is based on the circumstances at that time (as if the loan were being made for the first time). For example, the purchase price requirement is to be determined by reference to the average area purchase price at the time of the assumption and not when the mortgage was originally placed.

c. What if the mortgage is assumed, but it does not meet the eligibility requirements? If a mortgage is assumed that does not meet the mortgage eligibility requirements, then that mortgage must be accelerated or replaced with a qualified mortgage.

ADFA will not consent to the assumption if the eligibility requirements are not met.

d. What effect does an assumption have on the Mortgage? Upon the assumption, the eligibility requirements become incorporated in the related Mortgage and are kept as a part of the Mortgage File.

- When a Mortgage is assumed, the interest rate on that Mortgage remains the same.
- The Master Servicer may charge a fee in connection with the assumption as permitted by FHA, USDARD, VA, GNMA and/or Fannie Mae. They may also charge the reasonable and customary out-of-pocket costs paid or incurred by the Mortgage Lender as specified in Section 4.04 and to the extent permitted by law.
- All warranties and representations of the Mortgage Lender made to the original Borrower with respect to the Mortgage Loan remain in full force and effect with respect to the period prior to the assumption. Once the assumption has occurred, the warranties and representations still apply, but they only apply to the extent they relate to facts concerning the status or performance of the assuming purchaser.

E. Tax Code Compliance Schedules and Tables

SCHEDULE I
CURRENT LIST OF TARGETED AREAS

Borrowers purchasing a Qualified Dwelling in a Federally Targeted Area need not meet the First-Time Homebuyer regulation. The following counties constitute Targeted Areas:

Bradley	Lee
Calhoun	Lincoln
Chicot	Madison
Clark	Mississippi
Cleburne	Monroe
Columbia	Nevada
Conway	Ouachita

Crawford	Perry
Crittenden	Phillips
Cross	Prairie
Dallas	Scott
Desha	St. Francis
Drew	Searcy
Jefferson	White
Lafayette	Woodruff
	Yell

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
SCHEDULE II

MAXIMUM PURCHASE/SALES PRICE, DOWNPAYMENT REQUIREMENTS, LOAN AMOUNT REQUIREMENTS AND MORTGAGE LOAN INSURERS

A. MAXIMUM PURCHASE/SALES PRICE

The following are the Maximum Purchase/Sales prices permitted by the ADFA for housing purchased and/or constructed pursuant to this Mortgage Obligation Agreement:

SINGLE UNIT HOUSING	
Newly Constructed	See Schedule III
Existing Housing	See Schedule III

PROVIDED FURTHER THAT THE APPRAISED VALUE OF SUCH HOUSING SHALL NOT EXCEED 100% OF SAID MAXIMUM PURCHASE/SALES PRICES.

B. DOWNPAYMENT REQUIREMENTS

Following Loan Insuring Agency guidelines and regulations.

C. LOAN AMOUNT REQUIREMENTS

The principal amount of the mortgage loan will not exceed any applicable loan-to-value limits as established by FHA, USDARD, VA, GNMA or FNMA.

D. MORTGAGE LOAN INSURERS

1. FannieMae guidelines **must** be followed for insuring of Conventional Loans. Private Mortgage Insurance Companies must be approved by Fannie Mae/FHLMC and be licensed to conduct business in the State of Arkansas.
2. FHA loans **must** be insured by FHA.
3. RURAL DEVELOPMENT loans **must** be guaranteed by RURAL DEVELOPMENT.
4. VA loans **must** be guaranteed by Department of Veterans Affairs.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
Schedule III

STATE OF ARKANSAS 2003 INCOME BY COUNTY & HOUSEHOLD SIZE

Purchase Price Limits by County/New Existing (Effective September 3, 2002)

Income Limits by County and Household Size (Effective March 20, 2003)

N=Non-Targeted T=Targeted		PURCHASE PRICE LIMITS		2003 INCOME LIMITS	
				1-2 MEMBER	3-MORE MEMBER
N/T	**COUNTY**	**EXISTING**	**NEW CONSTRUCTION**	**HOUSEHOLD**	**HOUSEHOLD**
N	Arkansas	$85,864	$109,779	$43,400	$49,910
N	**Ashley**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Baxter	$85,864	$109,779	$43,400	$49,910
N	**Benton**	**$85,864**	**$109,779**	**$49,900**	**$57,385**
N	Boone	$85,864	$109,779	$43,400	$49,910
T	**Bradley**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
T	Calhoun	$104,945	$134,174	$52,080	$60,760

N	**Carroll**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
T	Chicot	$104,945	$134,174	$52,080	$60,760
T	**Clark**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
N	Clay	$85,864	$109,779	$43,400	$49,910
T	**Cleburne**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
N	Cleveland	$85,864	$109,779	$43,600	$50,140
T	**Columbia**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
T	Conway	$104,945	$134,174	$52,080	$60,760
N	**Craighead**	**$85,864**	**$109,779**	**$45,400**	**$52,210**
T	Crawford	$103,296	$134,174	$52,200	$60,900
T	**Crittenden***	**$153,425**	**$153,425**	**$68,760***	**$80,220***
T	Cross	$104,945	$134,174	$52,080	$60,760
T	**Dallas**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
T	Desha	$104,945	$134,174	$52,080	$60,760
T	**Drew**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
N	Faulkner	$105,478	$109,779	$52,400	$60,260
N	**Franklin**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Fulton	$85,864	$109,779	**$43,400**	**$49,910**
N	**Garland**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Grant*	$85,864	$109,779	$46,000*	$52,900*
N	**Greene**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Hempstead	$85,864	$109,779	**$43,400**	**$49,910**
N	**Hot Spring**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Howard	$85,864	$109,779	**$43,400**	**$49,910**
N	**Independence**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Izard	$85,864	$109,779	**$43,400**	**$49,910**
N	**Jackson**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
T	Jefferson	$104,945	$134,174	$52,080	$60,760
N	**Johnson**	**$85,864**	**$109,779**	**$43,400**	**$49,910**

*Income Limits remained the same from the previous year. (3/20/03)

SCHEDULE III

Page 2

N=Non-Targeted T=Targeted		**PURCHASE PRICE LIMITS**		**2003 INCOME LIMITS**	
				1-2 MEMBER	**3-MORE MEMBER**
N/T	**COUNTY**	**EXISTING**	**NEW CONSTRUCTION**	**HOUSEHOLD**	**HOUSEHOLD**
T	Lafayette	$104,945	$134,174	$52,080	$60,760
N	**Lawrence**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
T	Lee	$104,945	$134,174	$52,080	$60,760
T	**Lincoln**	**$104,945**	**$134,174**	$52,080	$60,760
N	Little River	$85,864	$109,779	**$43,400**	**$49,910**
N	**Logan**	**$85,864**	**$109,779**	**$43,400**	**$49,910**
N	Lonoke	$105,478	$109,779	$52,400	$60,260
T	**Madison**	**$104,945**	**$134,174**	**$52,080**	**$60,760**
N	Marion	$85,864	$109,779	$43,400	$49,910
N	**Miller**	**$85,864**	**$109,779**	**$44,300**	**$50,945**
T	Mississippi	$104,945	$134,174	**$52,080**	**$60,760**

T	Monroe	$104,945	$134,174	$52,080	$60,760
N	Montgomery	$85,864	$109,779	$43,400	$49,910
T	Nevada	$104,945	$134,174	$52,080	$60,760
N	Newton	$85,864	$109,779	$43,400	$49,910
T	Ouachita	$104,945	$134,174	$52,080	$60,760
T	Perry	$104,945	$134,174	$52,080	$60,760
T	Phillips	$104,945	$134,174	$52,080	$60,760
N	Pike	$85,864	$109,779	$43,400	$49,910
N	Poinsett	$85,864	$109,779	$43,400	$49,910
N	Polk	$85,864	$109,779	$43,400	$49,910
N	Pope	$85,864	$109,779	$43,800	$50,370
T	Prairie	$104,945	$134,174	$52,080	$60,760
N	Pulaski	$105,478	$109,779	$52,400	$60,260
N	Randolph	$85,864	$109,779	$43,400	$49,910
T	St. Francis	$104,945	$134,174	$52,080	$60,760
N	Saline	$105,478	$109,779	$52,400	$60,260
T	Scott	$104,945	$134,174	$52,080	$60,760
T	Searcy	$104,945	$134,174	$52,080	$60,760
N	Sebastian	$84,515	$109,779	$43,500	$50,025
N	Sevier	$85,864	$109,779	$43,400	$49,910
N	Sharp	$85,864	$109,779	$43,400	$49,910
N	Stone	$85,864	$109,779	$43,400	$49,910
N	Union	$85,864	$109,779	$43,400	$49,910
N	Van Buren	$85,864	$109,779	$43,400	$49,910
N	Washington	$85,864	$109,779	$49,900	$57,385
T	White	$104,945	$134,174	$52,080	$60,760
T	Woodruff	$104,945	$134,174	$52,080	$60,760
T	Yell	$104,945	$134,174	$52,080	$60,760

(03/20/03)

SCHEDULE III

Page 3

The Maximum Household Income Limits are regulated by the Treasury Department. The following **MUST** be considered when calculating borrower's income. **ALL** SOURCES OF INCOME **MUST** BE CONSIDERED.

Household Income is defined as "the current family income of a potential Mortgagor, and shall in any event include the current gross income of **ALL** persons who reside or intend to reside with such Mortgagor in the same dwelling unit (other than persons under 18 years of age who are not primarily liable or secondarily liable on the Mortgage Note), but exclusive of the income of any CO-SIGNER of a Mortgage Note who does not reside or intend to reside therein, as evidenced by documentation satisfactory to the Authority." Current gross income is annualized current gross monthly income (gross monthly income multiplied by 12).

GROSS MONTHLY INCOME IS THE SUM OF MONTHLY GROSS PAY AND ANY ADDITIONAL INCOME INCLUDING BUT NOT LIMITED TO THE FOLLOWING:

Alimony
Bonuses
Business Activities Income
Child Support

Commissions
Dividends
Income from Assets
Interest
Investments Income
Mileage
Military Allowance
Net Rental Income
Overtime
Part-Time Employment
Pensions
Public Assistance
Royalties
Shift Differential
Sick Pay
Social Security Benefits
Trust Income
Unemployment Compensation
VA Compensation

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 3
MORTGAGE LENDER CREDIT/REAL ESTATE UNDERWRITING

ADFA is pleased to purchase the following types of Mortgage Loans for our HomeToOwn Program. These types of Mortgage Loans are eligible for participation in the Single Family Program:

FHA Loans: 203(b), 203(b)/Vet, 234c, 203(k), 203(h), in applicable areas. **ADFA encourages the use of the FHA Energy-Saving Mortgage**.

V.A. Guaranteed Loans: Guaranteed by the Department of Veterans Affairs.

Conventional Loans: (for pooling to Fannie Mae) will include Community Home Buyer Program Loans and the Housing Finance Agencies (HFA) One Percent Option using the Downpayment Assistant Loan.

Rural Development: Guaranteed Rural Housing Loans.

Each Mortgage Lender is required to provide to ADFA, in the Mortgage Origination Agreement (as defined in Chapter 1), its Approved Mortgage Lender Numbers for FHA Loans, VA Loans, FNMA Loans and Rural Development Loans. If the Mortgage Lender is also an approved direct endorsement "Chums Underwriter", those approved mortgager lender numbers must also be included in the Mortgage Origination Agreement. If any changes occur within your lending institution, please notify ADFA.

As our bond lender, we are allowing you to credit underwrite our ADFA loans. ADFA needs additional compliance underwriting information to make our files complete. Items we now request **must** include:

FHA Loans: signed mortgage credit analysis worksheet (MCAW), and any automated underwriting
finding (if applicable).

V.A. Guaranteed Loans: signed loan analysis approval sheet, and automated underwriting findings (if applicable).

Conventional Loans: signed uniform underwriting transmittal summary (1008), and automated underwriting findings (if applicable).

Rural Development: signed conditional commitment and any automated underwriting findings (if applicable).

Please note that the Master Servicer has provided the following underwriting checklists for use with the following categories of Mortgage Loans: FHA Loans, VA Loans, Conventional Loans and USDA Rural Development Loans. For your convenience, ADFA has included copies of those four checklists at the end of this Chapter.

The **Real Estate Appraisal** should have consistency throughout the appraisal. The comparables need to be similar. All appraisers must be on the Mortgage Lender's approved appraiser list. Note: If there are any discrepancies with the appraisal, ADFA may ask for clarification.

ALL MORTGAGE LOANS MUST BE INSURABLE OR GUARANTEED BY MORTGAGE TYPE AND SALEABLE ON THE SECONDARY MARKET. IN THE EVENT THAT A MORTGAGE LOAN IS NOT INSURABLE OR GUARANTEED, BOTH THE MORTGAGE LOAN AS WELL AS ANY DPA LOAN MUST BE REPURCHASED BY THE ORIGINATING MORTGAGE LENDER.

ADFA's main goal is to quickly process loans with accuracy so when the loans are delivered to the secondary market, they can be purchased faster with no exceptions.

Attach form on top of credit package

THE LEADER MORTGAGE COMPANY
UNDERWRITING CHECKLIST
For FHA Loans

BORROWER NAME: ____

MORTGAGE LOAN #: LM ____________________________________

ORIGINATING MORTGAGE LENDER: __________________________

* MUST HAVE SIGNED UNDERWRITER APPROVAL SHEET /MCAW, OR AUTOMATED UNDERWRITING FINDINGS (IF APPLICABLE)!

APPLICATION

____ Mortgage Credit Analysis Worksheet
____ Loan Application (Typed)
____ Signed Loan Application (Handwritten)
____ HUD 92900A (HUD Addendum)

EMPLOYMENT

____ Employment Verifications (2 year History)
____ Self-Employed YTD P&L/Corp Tax Returns
____ Signed Tax Returns with all schedules and W-2's
____ Most Recent Paystubs

PROPERTY

____ Purchase Agreement/Addenda/Legible
____ FHA Addendum (All Parties)
____ Repair Letter signed by buyer and seller
____ Seller Certification
____ Lead Paint Disclosure

____ Conditional Commitment (92800-5B)
____ Appraisal with VC Sheets
____ Notice to Homebuyer (92900-B)
____ Copy of Legal Description
____ FHA Case Number Assignment
____ For Your Protection, Get a Home Inspection
____ Notice to Homebuyer (HUD 92564-HS)

LIQUID ASSETS

____ Deposit Verifications
____ Bank Statements
____ Gift Letter/Source and Receipt verified
____ Ernest Money Verification
____ HUD 1 from sale of home or Listing/Purchase Agreement

CREDIT

____ Original Credit Report
____ Credit Explanations Letter
____ Bankruptcy/Discharge

____ Loan Verifications
____ Rent/Mortgage Letter
____ Child Care Expense Letter

MISCELLANEOUS

____ Good Faith Estimate
____ Initial TIL Disclosure
____ Loan Disclosure Notice
____ RESPA Disclosure
____ Signed Borrower Certification & Authorization
____ Informed Consumer Choice
____ Copy of Divorce/Separation Agreement
____ Picture ID/Social Security Card
____ Copy of Bond Registration Form
____ Check for Underwriting Fee (Place on Top of Stacking Order)

Attach Form To Top of Credit Package

THE LEADER MORTGAGE COMPANY

UNDERWRITING CHECKLIST

VA LOANS

BORROWER NAME: ____

MORTGAGE LOAN #: LM ____

ORIGINATING MORTGAGE LENDER: ____________________________

* MUST HAVE SIGNED LOAN ANALYSIS APPROVAL SHEET, OR AUTOMATED UNDERWRITING FINDINGS (IF APPLICABLE)!

APPLICATION

____ VA Loan Summary Sheet (26-0286)
____ Loan Analysis (26-6393)
____ Loan Application/Typed
____ Original Signed Loan Application/Handwritten
____ VA Addendum (1802A)

EMPLOYMENT

____ Employment Verifications (2 year History)
____ Self-Employed YTD P&L/Corp Tax Returns
____ Signed Tax Returns/W-2's
____ Most Recent Paystubs

PROPERTY

____ Purchase Agreement/Addenda/signed by all parties
____ CRV/Appraisal
____ Request for Appraisal (26-1805)
____ Copy of Legal Description

LIQUID ASSETS

____ Gift Letter/Source and Receipt Verified
____ Deposit Verifications
____ Bank Statements
____ Ernest Money Verified
____ HUD 1 from sale of previous home/Listing/Purchase Agreement

CREDIT

____ Original Certificate of Eligibility
____ Picture ID/Social Security Card
____ VA Indebtedness Letter (26-8937)
____ Old vs. New Statement (IRRRL)
____ Credit Report
____ Loan Verifications
____ Rent/Mortgage Letter
____ Child Care Expense Letter
____ Credit Explanations
____ Divorce/Separation Agreement
____ Bankruptcy/Discharge

MISCELLANEOUS

____ Good Faith Estimate
____ Initial TIL Disclosure
____ Loan Disclosure Notice (ARMS)
____ RESPA Disclosure
____ Borrower Certification & Authorization
____ Bond Registration Form
____ Check for Underwriting Fee (Place on Top of Stacking Order)

Attach form to top of credit package

THE LEADER MORTGAGE COMPANY

UNDERWRITING CHECKLIST

CONVENTIONAL LOANS

BORROWER NAME: ________________________________

MORTGAGE LOAN #: LM ______________________________

ORIGINATING MORTGAGE LENDER: ____________________

* MUST HAVE SIGNED UNIFORM UNDERWRITING TRANSMITTAL SUMMARY (1008), AS WELL AS, LEADER'S CONDITION OF LOAN APPROVAL SHEET, AND AUTOMATED UNDERWRITING FINDINGS (IF APPLICABLE)!

APPLICATION

____ Transmittal Summary (1008)
____ Loan Application/Typed
____ Original Signed Handwritten Application

PROPERTY

____ Purchase Agreement/Addenda Signed by all Parties (Legible Copy)
____ Original Appraisal
____ Legal Description

CREDIT

____ Credit Report
____ Loan Verifications
____ Rent/Mortgage Letter
____ Child Care Expense Letter
____ Credit Explanations
____ Divorce Decree/Separation Agreements
____ Bankruptcy/Discharge

EMPLOYMENT

____ Original Employment Verifications (Verify 2 years)
____ Self-Employed YTD P&L/Corp Tax Returns
____ Signed Tax Returns/W-2's
____ Most Recent Paystubs

LIQUID ASSETS

____ Gift Letter.Source/Receipt Verified
____ Deposit Verification
____ Bank Statements
____ Ernest Money Verification
____ HUD 1 FROM Sale of Previous Home/Listing or Purchase Agreement

MISCELLANEOUS

____ Good Faith Estimate
____ Initial TIL Disclosure
____ Loan Disclosure Notice (Arms)
____ RESPA Disclosure
____ First Time Homebuyer Education Certificate(s)
____ Copy of Bond Registration
____ Check for Underwriting Fee (Place on Top of Stacking Order)

Attach form to top of credit package

THE LEADER MORTGAGE COMPANY

UNDERWRITING CHECKLIST

USDA RURAL DEVELOPMENT LOANS

BORROWER NAME: ____

MORTGAGE LOAN #: LM ____

ORIGINATING MORTGAGE LENDER: ____________________________

* MUST HAVE SIGNED CONDITIONAL COMMITMENT, AS WELL AS LEADER'S CONDITION OF LOAN APPROVAL SHEET!

APPLICATION

____ Original Transmittal Summary (1008)
____ Original Loan Application/Typed (Include Caivr#)
____ Original Signed Handwritten Loan Application

PROPERTY

____ Purchase Agreement /Addenda/signed by all parties (Legible Copy)
____ Copy of Appraisal with Original Photos.
____ Legal Description
____ VC Sheets

CREDIT

____ Original Credit Report
____ Original Mortgage/Rent Verification
____ Original Credit Explanation (Signed by Borrower)
____ Copy of Divorce Decree/Separation Agreements
____ Copy of Bankruptcy /Discharge

EMPLOYMENT

____ Original Employment Verifications (Document 2 year history include employment gaps)
____ Self-Employed YTD/P&L/Corp Tax Returns
____ Copies of Signed Tax Returns with W-2s
____ Most Recent Paystub

LIQUID ASSETS

____ Original Deposit Verifications or Bank Certified Printouts
____ Original Bank Statements
____ Original Gift Letter/Source & Receipt
____ Ernest Money Verification
____ Original HUD1 from Sale of Previous Property

MISCELLANEOUS

____ Signed Good Faith Estimate
____ Signed Initial TIL Disclosure
____ Copy of Bond Registration
____ Evidence of Homebuyer Education
____ Existing Dwelling/Thermal Certification
____ Request for Single Family Housing Loan Guarantee
____ Check for Underwriting Fee (Top of Stacking Order)

____

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 4 - DOWN PAYMENT ASSISTANCE LOANS

ADFA is pleased to be able to provide downpayment and closing cost assistance in the form of a Down Payment Assistance Loan secured by a second mortgage ("DPA Loan") to those who qualify for it. The amount of assistance available ranges from $1,000 up to a maximum of $3,000. All DPA Loans must be issued in conjunction with a Single Family Program Mortgage Loan. Please note that the funds are a loan and not a grant. ADFA no longer offers downpayment and closing cost assistance in the form of a grant.

The proceeds of the DPA Loan can only be used for certain items. Of course, funds may be used for an Eligible Borrower's downpayment and Closing costs. There is no "cash back" to the Eligible Borrower at Closing. If the amounts of the Mortgage Loan and the DPA Loan exceed the amounts required at Closing, the DPA Loan amount must be reduced. We urge you to calculate your loan amounts as accurately as possible to save everyone the hassle of reducing the principal balance of the Mortgage Loan at Closing. It is also important to calculate the loan amounts accurately, because in most cases, the reduction of Mortgage Loan principal costs the Eligible Borrower extra money! Origination fees and other fees based on a percentage of the Mortgage Loan amount would have already been incurred. Reducing the principal balance of the Mortgage Loan doesn't allow the Eligible Borrower to recoup any of these fees, nor does it reduce the monthly payment amount. So do everybody a favor and keep all loan amounts accurate!

The DPA Loan term is based on a 10-year amortization. It is due on sale, transfer, other disposition of the property (including any involuntary transfer by or as a result of foreclosure or judicial sale or operation of law), refinance or other satisfaction of the Mortgage Loan.

The interest rate on DPA Loans may be changed by the Authority at any time. Please refer to the ADFA website for the current rate.

Here are some other requirements for downpayment assistance financing:

a. Homebuyer Education. All borrowers, with the exception of co-signors, are required to complete an eight hour homebuyer education course taught by an ADFA-approved homebuyer counseling agency. A copy of the certificate that is issued at the end of the course must be included in the Mortgage File. All persons that will be signing the Mortgage Note are required to take the course!

b. Minimum Cash Investment. A borrower will be required to invest one percent (1%) of the total sales price or purchase price of the residence or $500, whichever is greater. This change applies to all income levels, so there will no longer be a need to consider the Eligible Borrower's median income. IN NO INSTANCE SHALL THE REQUIRED DOWNPAYMENT FALL BELOW $500. The Mortgage

Lender will use the Fannie Mae conventional loan Housing Finance Authority 1% Option mortgage loan product with the DPA Loan.

c. Maximum Cumulative Loan to Value (CLTV).

- FHA: The sum of all financing may not exceed 100% of the Acquisition Cost plus any prepaid expenses.
- VA: The sum of all financing may not exceed 100% of the reasonable value of the property established by VA plus any Closing costs and prepaids.
- Conventional: The sum of all financing cannot exceed 100% of the lower of the Purchase Price or appraised value.
- USDARD: Sum of financing cannot exceed 100% of appraised value.

d. Allowable Fees to Participant Mortgage Lender. No commitment or origination fee will be charged for the DPA Loan. The Mortgage Lender may collect and retain a $50 application fee for each DPA Loan.

e. Closing Requirements.

- DPA Loan must meet federal truth-in-lending disclosure requirements.
- A Notice to Mortgagor and Participant Lender Certification must be completed and included in the Mortgage File for purchase.
- Second mortgage must be recorded in the official public records of the County Recorder's Office such that it constitutes a valid second lien upon the property.
- Hazard insurance policy must show the Mortgage Lender and/or its assigns as an insured second mortgagee.
- Title insurance policy must reflect the second mortgage as a valid lien against the property subordinate to the Mortgage.
- Mortgage Lender advances the funds and is reimbursed at the purchase by the Master Servicer.
- The DPA loan will be assigned to Arkansas Development Finance Authority.

f. Servicing Information.

- DPA Loan will be serviced by the Master Servicer.
- A single coupon booklet will be issued and the Eligible Borrower will remit one check to cover both the first and second mortgage loan obligations.
- Assumptions are not allowed.
- A DPA Loan administration fee of $150 will be netted at purchase from the DPA Loan funds reimbursed by the Master Servicer.
- There is no prepayment penalty.
- There is no recapture tax provision.
- In the event that the Mortgage Loan (the "First Mortgage") is determined to be uninsurable on the secondary market, then the originating Mortgage Lender will be obligated to repurchase both the Mortgage Loan ("First Mortgage") as well as the DPA Loan.

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 5 – MORTGAGE LOAN ORIGINATION

A. Taking Loan Applications - Initial Screening

Mortgage Lenders may accept applications on residences located anywhere within the State. If, after a particular Mortgage Lender initially joins the Single Family Program by executing a Mortgage Origination Agreement, the Mortgage Lender opens additional loan origination branches, the Mortgage Lender must send or fax a letter to ADFA listing the name, address, telephone and contact person at each new location.

a. Date of Sales Contract or Application. Since we have moved to continuous funding, we should always be able to offer Mortgage Loan proceeds. You will no longer have to restrict the date of the Standard Residential Purchase Contract or explain the date the loan application was taken.

b. Pre-Screening Applicants. We request that prior to taking a loan application for an ADFA Mortgage Loan, you take a few minutes to pre-screen the Eligible Borrowers. Ask such questions as:

- Is the Eligible Borrower and any Co-Eligible Borrower a first-time homebuyer?
- Is the Eligible Borrower's spouse a first-time homebuyer even though he or she may choose not to be liable on the Mortgage Loan?
- How does the Eligible Borrower honestly describe his or her credit history?

Once the Mortgage Lender is satisfied with the answers and believes that it has a legitimate candidate for the Single Family Program, then the Mortgage Lender should take the application and proceed to website at:

https://www.adfaweb.adfa.state.ar.us/logon.htm

c. Click here for loan origination documents. Origination documents can be processed by the originator with the Eligible Borrower(s) present. You will need to log on the Internet using your originator number, branch number, password and user ID number.

B. The Reservation Process

The next step is to reserve Single Family Program funds for the borrower. In order to reserve funds, Mortgage Lenders need only access to the ADFA web page at:

https://www.adfaweb.adfa.state.ar.us/logon.htm

Prior to making a reservation request, the Mortgage Lender should have in hand the following information:

a. **LOAN APPLICATION** (**Signed and dated** by borrower, any co-borrower and the Mortgage Lender).

b. **CREDIT REPORT** (Standard report from a credit reporting bureau or merged-in file with three repositories).

c. **OFFER & ACCEPTANCE** (**Signed and dated** by borrower(s), Seller(s) and all real estate persons involved with the transaction).

d. **CONSTRUCTION/HOME BUILDER CONTRACT** (**Signed and dated** by the borrower and his or her homebuilder).

e. **ITEMIZED ACQUISITION COST BREAKDOWN/WITH MATERIAL AND LABOR LIST** (If Eligible Borrower is building his or her own house).

f. **CONTRACTOR BIDS** (For **FHA 203(k)** Loans, copies of **signed** contractor bids to rehabilitate property. If unavailable at time of Mortgage Loan application, ADFA will accept **signed** letter from Mortgage Lender stating approximate cost of rehabilitation).

A **$100 reservation fee** must be collected on all Mortgage Loans--including new construction--to be credited at Closing. Please be sure that all documents are executed by all parties involved.

The loan reservation system is open from 7:00 a.m. to 10:00 p.m., Monday through Friday, except for State-observed holidays.

At time of reservation, you will be assigned a loan tracking number. This is very important. Put the tracking number on all documentation throughout your file. Refer to it every time you send us a fax, a letter or other documentation. If you don't, we won't be able to respond in a prompt manner because we will be conducting computer searches to identify the file and its underwriter. If you are utilizing our downpayment assistance program (described below), you will also reserve those funds at this point.

Keep in mind that you have thirty (30) days to review the Mortgage File, assemble the ADFA package and send it to us. WE ARE NOT OBLIGATED TO HONOR THE RESERVATION AFTER THE THIRTY (30) DAYS HAVE EXPIRED.

Note: At the time the reservation is made the Loan Rate is LOCKED regardless of future rate changes.

Please keep in mind that once you've received a tracking number, you're telling us you're pretty much ready to go with that specific Eligible Borrower and Mortgage Loan. We realize there might be an occasion to transfer either a given residence (property address) or a Mortgage Lender and we will consider these types of requests, but know that we will ask for a written explanation from the loan officer.

ADFA charges each lender a $25 fee for every loan that is reserved. The Lender cannot charge the fee to the buyer of the property on the HUD-1 Settlement Statement at closing due to FHA/HUD Regulations as to what are borrower items that may be charged at closing. This $25.00 fee needs to be sent with the closing package that ADFA receives after the loan is closed.

C. Applicable HomeToOwn Compliance Schedule:

5-A Borrower's Certificate as to Income

5-A1 Occupant Income Certification Affidavit

5-B Borrower's Affidavit and Certification

5-C Notice to Buyers

5-D Supplemental Affidavit and Certification - Rental Property

5-E Supplemental Affidavit and Certification - Mobile Home

5-F Notice to Mortgagor of Potential Recapture Tax; Owner Occupancy Requirement; Purchase Price Limits and Income Limits; Final Shipping Date

BORROWER'S CERTIFICATE AS TO INCOME

Ladies and Gentlemen:

I understand that HOUSEHOLD INCOME includes total income from all sources (before taxes or withholding) of all adult persons residing or intending to reside in the Single Family Residence to be financed with the proceeds of the Mortgage Loan. The total number of all persons who will reside or intend to reside in this Single Family Residence is __________. The total number of all persons 18 years old or older who will reside or intend to reside in this Single Family Residence is ______________. Household Income is defined as the "current household income of a potential Mortgagor, and shall in any event include the current gross income of all persons who reside or intend to reside with such Mortgagor in the same dwelling unit (other than persons under 18 years of age who are not primarily liable or secondarily liable on the Mortgage Note), but exclusive of the income of any CO-SIGNER of a Mortgage Note who does not reside or intend to reside therein, as evidenced by documentation satisfactory to the "Authority." The information contained in the loan application is information relevant to a determination of my annual Household Income as the date hereof, and to the best of my knowledge and belief. Current gross income is gross monthly income multiplied by twelve (12). Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, commissions, dividends, income from assets, interest, royalties, shift differential, pensions, VA compensation, net rental income, etc., and other income such as alimony, child support, mileage, military allowance, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, etc.

As defined above, my annual Household Income is $___________________. I do not expect such annual Household Income to change within the next 120 days. This amount includes the annual income of all persons age 18 years and older who intend to occupy the mortgaged property.

BORROWER: **CO-BORROWER:**

_______________________________ _______________________________

Name:__________________________ Name:__________________________
Date:__________________________ Date:__________________________

PROPERTY ADDRESS: ____

(MAILING ADDRESS/STREET & NUMBER) (AS ON NOTE & MORTGAGE)

____

(CITY/STATE/ZIP CODE)

THIS DOCUMENT MUST BE EXECUTED BY BORROWER AND CO-BORROWER AT TIME OF LOAN APPLICATION

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5 A-1

NON BORROWER OCCUPANT INCOME AFFIDAVIT

The undersigned, ____ duly states under oath that:

1. I intend to be an occupant of the residence located at ___________________________ ____.

2. My gross monthly income is $_______________ (Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, commissions, dividends, income from assets, interest, royalties, shift differential, pensions, VA compensation, net rental income, etc., and other income such as alimony, child support, mileage, military allowance, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, etc.).

3. Three years of Federal Income Tax Returns are required.

   I am providing tax returns with W-2's attached for the following years: _____; _____; _____.

   I have **not** filed, and was under no obligation to file, the following income tax years: _____; _____; _____.

4. (CHECK APPROPRIATE RESPONSE). I have □ I have **not** □ had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date of executing the mortgage on said residence.

I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

a. A fee simple interest;
b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
c. The interest of a tenant-shareholder in a cooperative;
d. A life interest;
e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;

g. A lease with an option to purchase for a nominal sum; and
h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;
d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;
f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

OCCUPANT (x) ______________________

(Name): ______________________

Date: ______________________

ACKNOWLEGMENT

STATE OF ARKANSAS _______________)
COUNTY OF _____________________)

On this ______ day of ____________, 2____, before me, a Notary Public within and for the said County and State, personally appeared ____

____,

to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Occupant's Income Certification Affidavit, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _________, 2____.

____

My Commission Expires: Notary Public

____

(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-B

BORROWER'S APPLICATION AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

1. I am a borrower and mortgagor (the "Borrower") of the residence located at: _____________ ____, and legally described as follows:

   Legal Description:

2. I either occupy such residence (or one unit of the duplex constituting such residence) as my principal residence, or I will do so within sixty (60) days of the date the Mortgage is executed, and I will maintain such property (or units) as my principal residence. (If a duplex, property was occupied as a residence at least five (5) years prior to the date hereof).

3. No part of the Mortgage Loan proceeds is being or will be used to acquire or replace an existing mortgage, and I did **not** have a mortgage (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage (except that I may have a construction period loan or temporary initial financing of 24 months or less with the respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

4. The purchase price of the residence is $______________ or less. I understand that for the purpose of the foregoing purchase price of the residence is the cost of acquiring the residence from the seller as a completed residential unit. The acquisition cost includes:

   a. **All** amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **all** property that is a fixture. The purchase price also includes the acquisition cost of any other item in excess of the fair market value.
   b. If a residence is incomplete, the reasonable cost of completing the residence whether or **not** the cost of completing construction is to be financed with the proceeds of the Mortgage Loan.
   c. (DELETE IF **NOT** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority ("ADFA").

_____/_____
Initial

The acquisition cost does **not** include:

a. The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs also include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.
b. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.
c. The cost of land, which has been owned by any purchaser for, at least two (2) years prior to the date on which construction of the residence began.

5. (CHECK APPROPRIATE RESPONSE). I have □ I have **not** □ had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date on which I will be executing the Mortgage on said residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said residence with me.

   I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

   a. A fee simple interest:
   b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
   c. The interest of a tenant-shareholder in a cooperative;
   d. A life interest;
   e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
   f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;
   g. A lease with an option to purchase for a nominal sum; and
   h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;
d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;

f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

6. The residence contains no more than two separate family dwelling units, if there are two units, one unit **must** have been used as a residence for 5 years, and one of the units **must** be occupied by the borrower as his or her principal residence.

7. I WILL **NOT** PERMIT ANY PERSON TO ASSUME MY OBLIGATIONS UNDER THE MORTGAGE (AND RELATED MORTGAGE NOTE), NOR WILL I TRANSFER TITLE TO THE RESIDENCE (EXCEPT AS SET FORTH IN THE MORTGAGE), UNLESS SUCH PERSON SATISFIES THE FOREGOING REQUIREMENTS, AND UNLESS THE PURCHASE PRICE OF THE RESIDENCE DOES **NOT** EXCEED THE MAXIMUM PURCHASE PRICE ALLOWED BY ADFA AND SUCH PERSON SO STATES UNDER OATH.

The purchase price limitation, which is required by the federal tax laws, may be a lower number at the time of the assumption than was in effect at the time of the ORIGINAL purchase. This may occur in the case of the purchase of a newly constructed home. Is such home has **not** previously been occupied (i.e., at the time of ORIGINAL purchase), such home is subject to the maximum purchase price for the "new construction." However, because such home will have been previously occupied at the time of a subsequent assumption, such home will be subject to the maximum purchase price for an "existing home." This is the case if the ORIGINAL purchaser occupied the home for any period of the time (i.e., technically even one day).

_____/_____
Initial

8. (DELETE THE FOLLOWING IF MORTGAGOR FILED FEDERAL INCOME TAX RETURNS). I have **not** filed, and was under no obligation to file, federal tax returns, for the following income tax years: ________________________________.

_____/_____
Initial

9. (DELETE THE FOLLOWING IF MORTGAGOR RESPONDED TO ITEM 8).
I have filed federal income tax returns for the most recent tax years.

10. I do **not** expect to use more than 15% of the total area of the residence in a trade or business.

11. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth in paragraph 7), are made and agreed to.

12. I understand that if my Mortgage Loan is being financed (or assumed by a subsequent purchaser) after December 31, 1990, federal law provides for a "recapture tax" which may be applicable to me (or a subsequent purchaser) upon the resale of the residence. I acknowledge receipt of the Notices to Mortgagor regarding Potential Recapture Tax, **EXHIBIT 5-F** and **7-P.**

13. I acknowledge that I have received and executed the "Notice to Borrower's" regarding potential foreclosure, which notice shall be deemed incorporated herein by reference.

BORROWER: **CO-BORROWER:**

(x)______________________________ (x)______________________________
Name:___________________________ Name:___________________________
Date:______________________________ Date:______________________________

ACKNOWLEGMENT

STATE OF ARKANSAS ______________)
COUNTY OF _____________________)

On this ______ day of ____________, 2____, before me, a Notary Public within and for the said County and State, personally appeared __________________________________
____,
to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Borrower's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _____________, 2____.

____
Notary Public

My Commission Expires:

____

(SEAL)

NOTICE TO BORROWERS

THIS NOTICE IS FOR FHA AND RURAL DEVELOPMENT HOMEBUYERS

Your home purchase is being financed with a Mortgage Loan made available with the assistance of the Arkansas Development Finance Authority. This Mortgage Loan is made at an interest rate below what is usually being charged. Because of this, your Mortgage provides that you cannot sell your home to a person ineligible for the assistance from the Authority, unless you pay your loan in full. If you sell your home to a party ineligible for the Authority's assistance, the Authority may demand immediate full repayment of the Mortgage Loan. This could result in foreclosure of your Mortgage and repossession of the property. In addition, if you rent the property or committed fraud or intentionally misrepresented yourself when you applied for the Mortgage Loan, the Mortgage Lender may foreclosure your Mortgage and repossess the property. If the Mortgage Lender takes your home through foreclosure of the Mortgage because of these reasons, HUD/Rural Development will not be able to help you.

If the money received from the foreclosure sale is not enough to pay the remaining amount you owe on the Mortgage Loan, the Authority may obtain a deficiency judgment against you (a court ruling that you must pay whatever money is still owed on the Mortgage Loan after the foreclosure sale). Such judgment will be taken over by HUD/Rural Development if the Authority files an insurance claim against HUD/Rural Development because of the foreclosure. HUD/Rural Development may then bring an action against you to collect the judgment.

BORROWER: ____________________________ **CO-BORROWER:**

Name:__________________________ Name:______________________________
Date:___________________________ Date:_______________________________

**THIS DOCUMENT MUST BE EXECUTED BY BORROWER(S)
AT TIME OF LOAN APPLICATION**

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program

EXHIBIT 5-D

SUPPLEMENTAL AFFIDAVIT AND CERTIFICATION – RENTAL PROPERTY

The undersigned, ______________________________ hereby states under oath that:

1. (I)(We)have owned residential rental property during the preceding three years, set forth below: (Insert address(es) of unit/units). ______________________________

   ____

2. During such period of time, the unit or units described above have been held or utilized solely as rental property and have not been utilized by (me)(us) at any time as (my)(our) principal residence.

3. During such period of time, (I)(we) have had as (my)(our) principal residence the following dwellings which have been (rented)(leased) (other-specify below): ______________________________

   ____

4. (I)(We) recognize and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority ("ADFA") to permit ADFA to determine (my)(our) eligibility for a Mortgage Loan under applicable provisions of the Internal Revenue Code of 1986, as amended, and Treasury Regulations adopted and proposed thereunder; and

   (b) It is pursuant to those provisions of the Code and Regulations that the certifications set forth above are made, with the full intention and understanding on (my)(our) part that ADFA rely thereon.

BORROWER:	**CO-BORROWER:**
(x)______________________	(x)______________________
Name:	Name:
Date:	Date:

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF)

On this __________ day of __________________, 2______, before me, a Notary Public within and for said County and State, personally appeared ______________________________, to me know to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Supplemental Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______, day of ______________, 2______.

____

My Commission Expires: Notary Public

____

(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-E

SUPPLEMENTAL AFFIDAVIT AND CERTIFICATION - MOBILE HOME

The undersigned, ______________________________ hereby states under oath that:

1. (I)(We)have owned a mobile home (or specify other): ______________________________
   for the past ______ years and ______ months, more particularly described as follows:

   (Insert description of model, type and serial number of unit)

   ____

2. The mobile home (or manufactured dwelling) described above has been (my) (our) principal residence during such period of time.

3. During the period of time that it has been (my) (our) principal residence, the mobile home (or manufactured dwelling) has not been, and it is not now, permanently affixed to real property. It has been and is movable and transportable without material modifications to the dwelling, other than disconnection of hookups and similar matters.

4. The mobile home (or manufactured dwelling) has been located at the following site(s): (insert addresses or location descriptions)

   ____

   ____

5. The site(s) listed in paragraph (4) above, (has) (have) been:

   ☐ Rented ☐ Leased ☐ Other (Specify Below)

   ____

   ____

6. (I)(we) recognized and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority (ADFA) to permit ADFA to determine (my) (our) eligibility for a Mortgage Loan under applicable provisions of the Internal Revenue Code of 1968, as amended, and Treasury Regulations adopted and proposed thereunder; and

(b) It is pursuant to those provisions of the Code and Regulations that the certifications set forth above are made, with the full intention and understanding on (my) (our) part that ADFA rely thereon.

BORROWER: **CO-BORROWER:**

(x)______________________________	(x)______________________________
Name:	Name:
Date:	Date:

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF)

On this ________ day of ____________________, 2___, before me, a Notary Public within and for said County and State, personally appeared ______________________________
____,
to me know to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Supplemental Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this _____, day of ____________________, 2____.

____
My Commission Expires: Notary Public

____
(SEAL)

NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX; OWNER OCCUPANCY REQUIREMENT; PURCHASE PRICE LIMITS AND INCOME LIMITS; FINAL SHIPPING DATE

TO BE DELIVERED TO MORTGAGOR AT THE TIME OF APPLICATION FOR MORTGAGE LOAN

Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefits of a lower interest rate than is customarily charged on other mortgage loans. If you sell or otherwise dispose of your home during the next nine years, this benefit may be "recaptured." The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases above specified levels.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax.

Upon the closing of your Mortgage Loan, you will be given certain additional information that will be needed to calculate the amount, if any, of the "recapture tax."

The undersigned mortgagor(s) is (are) aware that they must occupy the subject residence as their principal residence, or will do so within sixty (60) days of the date of the mortgage is executed, and will maintain such property (or unit) as their principal residence and will do so until the loan is paid in full or assumed by a qualifying borrower. The mortgagor(s) is (are) also aware of the Purchase Price Limits and Income Limits as set forth in Schedule II & III of the Supplement to the Mortgage Origination Agreement.

ALL FILES MUST BE CLOSED AND SHIPPED TO THE LEADER MORTGAGE COMPANY OF CLEVELAND, OHIO, THE MASTER SERVICER.

The undersigned mortgagor(s) has (have) received and read a duplicate copy of the foregoing Notice to Mortgagor of Potential Recapture Tax, Principal Residence Requirement, Sales Price and Income Limits, and Final Shipping Dates.

MORTGAGOR:	**CO-MORTGAGOR:**
(x) ____________________	(x) ____________________
Name: ____________________	Name: ____________________
Date: ____________________	Date: ____________________

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 6 – MORTGAGE LOAN PROCESSING

A. Changes to Loan Amounts, Cancellations

Changes in Mortgage Loan amounts can be made in our system prior to ADFA receiving the complete Mortgage Loan package. Once the compliance package has been received at ADFA, any additional change must be requested by fax using form Exhibit 6-J. It is very important that you do not ship a Mortgage Loan to the Master Servicer without notifying us of any changes in Mortgage Loan amounts.

If you need to cancel a Mortgage Loan, please do so within three (3) business days upon the decision that the Mortgage Loan will not qualify. We have provided a form, Exhibit 6-I, Cancellation of Reservation Form, specifically for this purpose. We will accept a copy of your notice of adverse action as long as it contains all of the information outlined in our Exhibit 6-I.

Canceled Mortgage Loan files will be warehoused at ADFA for a maximum of 30 days from cancellation and will be destroyed unless we hear from you that you want the file returned. If ADFA denies the file, we will return file to the Mortgage Lender per written request; otherwise, the denied file will be destroyed within 30 days of cancellation.

B. Compliance Approval

Mortgage Lenders underwrite the Mortgage Loan for credit. Upon your institution's conditional approval, you send the complete file to ADFA, as outlined on the checklist provided in Exhibit 6-G. We urge you to submit a completed package, as incomplete packages impede the approval process. Failure to submit the required documentation may result in the deletion of your Mortgage Loan from the reservation system.

Tax Code compliance issues are addressed more comprehensively in Chapter 2 of this Program Guide.

C. Applicable Forms

6-G Preliminary Approval and Compliance Package

6-H ADFA Certificate of Compliance

6-I Cancellation of Reservation

6-J Request for Loan Amount Change

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-G

PRELIMINARY APPROVAL AND COMPLIANCE PACKAGE

LOAN MUST NOT CLOSE WITHOUT SUBMISSION OF THE FOLLOWING INFORMATION AND ISSURANCE BY ADFA OF THE CERTIFICATE OF COMPLIANCE-EXHIBIT 6-H

MAIL TO: **Single Family Housing**
Arkansas Development Finance Authority
P.O. Box 8023
Little Rock, AR 72203-8023

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O. Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWER:
(Last Name) (First Name) (M.I.)

NAME OF CO-BORROWER:
(Last Name) (First Name) (M.I.)

PROPERTY ADDRESS:
(Street & Number) (As on Note and Mortgage)

(City/State/Zip Code)

LOAN AMOUNT: $___________________

EXPECTED CLOSING DATE: _______________

DPA LOAN AMOUNT: $ _____________________

☐ **Non-Targeted County OR**
☐ **Targeted County**

COUNTY PROPERTY LOCATED: ________________________________

Purchase Price: $ **Appraised Value: $**

☐ **FHA Loan** ☐ **FHA 203(k)** ☐ **V.A. Loan** ☐ **Conventional Loan** ☐ **Rural Development**

THIS IS A THREE (3) PAGE DOCUMENT AND MUST BE COMPLETE IN CONTENT, SIGNED AND DATED

In connection with the ADFA HomeToOwn Program, The following documents are attached for your review and issuance of Compliance Certificate (EXHIBIT 6-H)

THE FOLLOWING DOCUMENTS MUST BE ACCO-FASTENED, FOLDER IS NOT REQUIRED

- ❑ A. **TYPED, FINAL LOAN APPLICATION (Signed** and **dated** by Borrower, Co-borrower & Mortgage Lender). If typed copy is not signed, submit both typed copy and copy of initial application.
- ❑ B. **OFFER AND ACCEPTANCE** (**Signed** and **Dated** by **All** parties).
- ❑ C. Construction/Home Builder Contract **If Proposed/New (Signed** and **Dated** by **All** parties).
- ❑ D. Itemized Acquisition. Cost Letter **If Borrower/s Building own House** (**Signed** and **Dated** by borrower and Lender)
- ❑ E. **Copies** of **signed** CONTRACTOR BIDS TO REHABILITATE PROPERTY **IF 203K** (If unavailable at the time of Loan Application, we will accept **signed** letter from the Mortgage Lender stating the approximate cost of rehabilitation).
- ❑ F. **Copy** of CREDIT REPORT- **Standard report from a credit reporting bureau** (or merged-in file with three repositories)
- ❑ G. **Original** NOTICE TO BORROWER OF POTENTIAL RECAPTURE TAX- **EXHIBIT-5F (Signed** and **Dated** by borrower).
- ❑ H. Make sure $100 Reservation Fee collected on all loans (even new construction) to be credited at closing.

YOU MUST ALSO INCLUDE ALL OF THE FOLLOWING ITEMS IN THIS PACKAGE

- ❑ I. **Copy** of ALTERNATIVE DOCUMENTS FOR BORROWER(S) – (**Information must be current, within 90 days)** phone verification made by the lender confirming borrower's current income, social security number, terms and dates of employment, probability of continued employment and the person's full name and title of position within the company giving the information, or VERIFICATION OF EMPLOYMENT.
  COPY of INCOME CALCULATIONS IF INCOME FROM SOURCES OTHER THAN WAGES
- ❑ J. **Copy** two current pay stubs (of 30 consecutive days) or with year-to-date totals.
- ❑ K. **For Self-Employed Applicants** PROVIDE PAST TWO YEARS FEDERAL TAX RETURN WITH 1099's AND/OR W-2's, CURRENT PROFIT & LOSS STATEMENT- **(CERTIFIED AS TRUE AND CORRECT -Signed** and **Dated)**
- ❑ L. **ORIGINAL** MORTAGAGORS APPLICATION AFFIDAVIT AND CERTIFICATION **Exhibit 5-A** (which **MUST** be **Signed** by **All** loan applicants residing in the home who are 18 years or older).
- ❑ M. **Exhibit 5 A-1 ORIGINAL OCCUPANT AFFIDAVIT AND CERTIFICATION** must be signed by all non-loan applicants (including spouse) who will be residing in the home who are 18 years or older. This Exhibit also addresses the tax return issue for the occupant
- ❑ N. **ORIGINAL** NOTICE TO BUYERS- **EXHIBIT 5-C** (for HUD and RURAL DEVELOPMENT Loans.
- ❑ O. **CERTIFIED COPIES** of **Signed** and **Dated** FEDERAL TAX RETURNS AND ACCOMPANYING W-2'S FOR PRECEEDING THREE (3) YEARS (if borrower purchasing property in a **non-targeted** county). IRS transcripts may be submitted in lieu of copies of tax returns. Transcripts **MUST** be stamped, dated and signed by authorized representative of I.R.S.
  1. Tax returns for 2001, 2000 and 1999.
  2. For Loan Applications taken **after** April 15, 2002; the following tax returns **must** be included: 2001, 2000 and 1999. See Chapter 2, Part A for details and examples.

- ❑ P. **Copy** of the following APPROPRIATE APPRAISAL:
  1. **For FHA Loans-**FHA Conditional Commitment. Direct Endorsement Underwriters **Must** also include a **Copy** Uniform Residential Appraisal Report. For FHA Acquired Properties ADFA will accept a **copy** of Offer and Acceptance **if** Conditional Commitment is not available.
  2. **For VA Loans-** Certificate of Reasonable Value plus Appraisal Report, if available.
  3. **For Conventional Loans and Rural Development Loans-** Uniform Residential Appraisal report.
- ❑ Q. Borrower has been made aware that the property must be used as their principal residence.
- ❑ R. **Typed** CERTIFICATE OF COMPLIANCE- **EXHIBIT 6-H**
- ❑ S. **Copy** of Lender worksheet analysis that includes income and debt ratios. If ratios are higher than the allowable mortgage type (FHA, RD, FANNIEMAE,VA) justification must be presented to ADFA at compliance.
- ❑ T. **Need** copy of all DU findings and underwriting requirements, if DU underwritten. If deviation from DU underwriting, justification must be presented at compliance.

*****NOTE THAT ALL OF THE FOLLOWING APPLIES IF THIS IS A 203K LOAN***

Further: *Mortgage lender hereby makes the following warranties, representations, and covenants:*

- ❑ U. I am familiar with HUD guidelines pertaining to FHA 203(k) loans. (HUD Handbook No.4240.4 Rev-2 December 6, 1991) with revisions-Mortgage letter 94-11, dated March 17,1994.
- ❑ V. I have reviewed the bids for rehabilitation submitted by the borrowers contractor and have determined the contractor has the expertise to perform the work outlined in the contract.
- ❑ W. The borrower is not acting as a self-contractor (ADFA regulation).
- ❑ X. The Rehabilitation Funds are deposited subject to the terms of the Rehabilitation Loan Agreement.
- ❑ Y. The Depository of the Rehabilitation Funds is an FDIC insured Institution.
- ❑ Z. I will notify the HUD assigned inspector when an inspection is due and will only authorize disbursement of funds according to the draw-down plan with an acceptable inspection report.
- ❑ AA. I will take necessary action to complete the rehabilitation work within six (6) months from date of closing.
- ❑ BB. I agree that the Supplemental Origination Fee and the Servicing Release Premium will only be paid upon completion of the rehabilitation.
- ❑ CC. Any unused funds will be submitted to the Master Servicer to be used towards the reduction of the principal balance.

THE UNDERSIGNED MORTGAGE LENDER CERTIFIES THAT THIS MORTGAGE LOAN IS ELIGIBLE FOR CONSIDERATION UNDER THE PROGRAM DESCRIBED WITHIN THIS DOCUMENT. I HAVE VERIFIED THESE ITEMS AS THEY PERTAIN TO ADFA RESTRICTIONS. I UNDERSTAND THAT MY SIGNATURE BELOW INDICATES THAT ALL ITEMS HAVE BEEN SUBMITTED AND ARE COMPLETE.

____
LOAN PROCESSOR/AUTHORIZED SIGNATURE
Name______________________________
Date______________________________

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-H

ADFA CERTIFICATE OF COMPLIANCE

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWER: ______________________________
(Last Name) (First Name) (M.I.)

NAME OF CO-BORROWER: ______________________________
(Last Name) (First Name) (M.I.)

PROPERTY ADDRESS: ______________________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

LOAN AMOUNT: $__________________ **LOAN RATE:** ____________
DPA LOAN AMOUNT: $__________________ **DPA INTEREST RATE:** ____________________

COUNTY PROPERTY LOCATED: ________________
EXPECTED CLOSING DATE: ____________________

☐ **FHA Loan** ☐ **FHA 203(k)** ☐ **V.A. Loan** ☐ **Conventional Loan** ☐ **Rural Development**

The above-referenced loan file has been reviewed and found to be in compliance with the requirements of the Internal Revenue Code of 1986 as amended and Arkansas Development Finance Authority's Regulations.

The Mortgage Loan shall be closed in accordance with the guidelines set out in the Program Guide and the Mortgage Origination Agreement.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

DATE: ________________ By: ______________________________
ADFA Mortgage Loan Underwriter________
Telephone Number: (501) 682-5900_______

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-I

CANCELLATION OF RESERVATION

MAIL TO: Single Family Housing
Arkansas Development Finance Authority
Little Rock, AR 72203
SINGLE FAMILY GENERAL USE FAX: (501) 682-5621
TELEPHONE NUMBER: (501) 682-5933

PLEASE FILL IN THE FOLLOWNG INFORMATION

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

The following information is provided to enable ADFA to reallocate funds originally reserved for this borrower whose file, for the reason(s) I have listed, should be withdrawn.

NAME OF BORROWER: ____________________
(Last Name) (First Name) (M.I.)

NAME OF CO-BORROWER: ____________________
(Last Name) (First Name) (M.I.)

PROPERTY ADDRESS: ____________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

BRIEF REASON FOR CANCELLATION: ____________________

____

____

____

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-J

REQUEST FOR LOAN AMOUNT CHANGE

FAX TRANSMITTAL SHEET

TO: SINGLE FAMILY GENERAL USE FAX NUMBER

(501) 682-5621

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWERS: ______________________________
(Last Name) (First Name) (M.I.)

NAME OF CO-BORROWERS: ______________________________
(Last Name) (First Name) (M.I.)

PROPERTY ADDRESS: ______________________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

Date:____________________

∗First Mortgage-New Loan Amount:______________________________

∗Second Mortgage-New Loan Amount:____________________________

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 7 – MORTGAGE LOAN CLOSING

A. Pre-closing Procedures

Upon receiving approval from the Authority, you may proceed to schedule the Mortgage Loan Closing.

NOTE: We will carefully examine every Mortgage Loan submitted for purchase. These procedures, if followed by you, will help reduce:

- The period of time between the date of Closing and the Mortgage Loan purchase date per the Master Servicer.
- The number of Mortgage Loans we refrain from purchasing while waiting for the Mortgage Lender to chase after title companies, borrowers, sellers, and so forth.
- The number of Mortgage Loans not purchased and ultimately reassigned to your institution.

Our expectations are the same as any other secondary investor. We want to purchase Mortgage Loans that are compliant with the Tax Code and are "investment quality" with "valid and perfected" liens and "clean" title. Much of what you are about to read should not be new material, because it is what you do normally.

1. Revision in Loan Terms or Acquisition Cost. If the borrower requests a change in terms of a Mortgage Loan which previously had been prior approved, and the Mortgage Loan amount changes, the proposed change(s) **MUST** be approved by the Authority prior to Closing the Mortgage Loan. The change may necessitate the submission of additional or revised documentation.

2. Satisfactory Completion Certificate. Was the appraisal made subject to repairs, replacements, alterations, conditions or completion per plans and specifications? If so, you must obtain a Satisfactory Completion Certificate. The certificate must clearly indicate compliance with all conditions and requirements of the original appraisal and must be signed by the Qualified Appraiser.

3. Hazard Insurance. The residence must be covered by a policy of hazard insurance typically known as a homeowner's insurance policy maintained by the borrower meeting the following requirements:

- The coverage must include all fire and extended coverage risks customarily insured against in the geographical area in which the property is located. The policy must provide a minimum fire and extended coverage insurance on a replacement cost basis in an amount not less than (i) one hundred percent (100%) of the replacement cost, or (ii) the outstanding principal balance of the Mortgage Loan, whichever is less;
- The hazard insurance policy must be in effect on the date of Closing of the Mortgage Loan;
- Insurance policies must be sufficient in amount and scope of coverage to meet the requirements of any private mortgage insurer and/or pool insurance;
- Policies containing a deductible clause up to $500 **(maximum deductible)** applicable to either fire or extended coverage, or both, are acceptable in areas where these provisions are mandatory or customary;
- The "Loss Payee" must be the Mortgage Lender "and/or its successors or assigns";
- All policies of hazard insurance must contain or have attached the standard mortgage clause customarily used in the area where the home is located. Each policy must provide that the insurance carrier notify the Master Servicer, at least ten days in advance of the effective date, of a reduction in the coverage or cancellation of the policy.
- We require flood insurance for any property located in a special flood area that has federally mandated flood insurance purchase requirements. The Mortgage Lender/Master Servicer must ensure that flood insurance is maintained and that it provides coverage at least equivalent to the coverage provided under the National Flood Insurance Program. Flood insurance must remain in force for the term of the loan in an amount at least equal to 1/3 of the outstanding principal balance of the Mortgage Loan. Flood insurance policies should generally be in the form of standard policies issued by members of the National Flood Insurers Association. The **maximum deductible** should be the lesser of $1,000 or 1% of the policy face amount.

4. Escrow Account. You must establish an escrow account and collect escrow payments along with the monthly principal and interest payments. This requirement is necessary due to rating agency demands on the Authority. Since the Mortgage Loans are the source for repayment of the Bond debt, the rating agencies require assurance that the properties will always have insurance and cannot be sold at tax sales. The term "escrow payments" means sums deposited toward the payment of real estate taxes and assessments, hazard insurance premiums, and primary mortgage insurance premiums.

5. Preparing Final Documents. You can now prepare the final documents to be used at Closing. You must use current standard FHA, VA, Fannie Mae/FHLMC or USDARD documents which include:

- **Note -** The debt of each Mortgage Loan must be evidenced by a properly executed Mortgage Note made payable to the particular Mortgage Lender;
- **Mortgage -** Each Mortgage Loan must be secured by a Mortgage or Deed of Trust, as applicable, constituting a first lien on the residence financed by the Mortgage Loan;
- **ADFA Rider -** (Exhibit 7-N) The Provisions of this rider substantially modify the terms of the Mortgage and must be attached and recorded with the Mortgage;
- **Assignment of Mortgage -** (Exhibit 7-O) Each Mortgage Loan must be assigned by your institution to the Master Servicer by a properly executed and recorded Exhibit 7-O - Assignment of Mortgage/Deed of Trust.

6. Fees and Charges of Lender. You may collect actual amounts expended for customary Closing costs, including mortgage insurance premiums, inspection fees, survey charges, escrow agent's fees, filing and recording fees, transfer taxes, documentary stamps and document preparation fees paid to the closing agent.

7. Reaffirmation of Affidavits. At Closing, both the Exhibit 7-L, Mortgagor's Application Affidavit and Certification, and Exhibit 7-M, Seller's Affidavit and Certification, must be completed. The Seller may appoint an agent or representative to execute the reaffirmation at Closing. We will require a copy of the recorded power of attorney and the representative must indicate in what capacity he or she is signing (attorney in fact, power of attorney, etc.).

Exhibit 7-K is the checklist used by the Authority in reviewing the Closing/Mortgage File. ADFA requires you to use this checklist as well as Exhibit 6-G, Preliminary Approval and Compliance Package, for both preliminary Mortgage Loan approval as well as Mortgage Loan Closing.

B. Loan Closing and Submission Documents

At this point you should be ready to close the Mortgage Loan and disburse funds. Once again you should look over the ADFA checklist for reviewing purchase files to make sure that your Closing instructions cover the necessary items. In order to be eligible for purchase by the Authority and the Master Servicer, each Mortgage Loan must be delivered to the Authority within **30 days** of Closing. The Mortgage Lender must deliver to the Authority the following documents, arranged in the order listed with first item on top.

1. **Documents.**

- The original Exhibit 7-K, ADFA Required Closing Documents.
- Mortgage Lender check for 1% discount fee and $25.00 Reservation Fee payable to ADFA.

- Typed copy of final loan application with appropriate addendums (signed by all parties, including Mortgage Lender).
- Copy of HUD -1 Settlement Statement (signed by all parties), which must:

    (i) reflect $100 credit for reservation fee.
    (ii) reflect $65 tax service fee paid by Seller.
    (iii) If refund is shown on line 303 to borrower for more than $10, a letter of explanation must be included also (Please recall that **no cash back** is permitted if a DPA Note is used in connection with a Mortgage Loan).

- Copy of Mortgage Note.
- Copy of Mortgage/Deed of Trust and Exhibit 7-N rider and any other applicable riders.
- Copy of Exhibit 7-O, Assignment of Mortgage/Deed of Trust.
- Original Exhibit 7-L, Mortgagor's Application Affidavit and Certification.
- Original Exhibit 7-M, Seller's Affidavit and Certification.
- Original Exhibit 7-P, Notice to Mortgagor of Information Regarding Potential Recapture Tax (NOTE: Please be sure you have inserted the appropriate county page for the sample table (Exhibit 7-P, page 4) and completed the top of the page with the borrower's information. A copy of the completed document should be given to the borrower at Closing.).
- Copy of Title Commitment including any title exceptions that need to be cleared or noted due to encumbrances.
- Copy of DPA Loan note (if applicable).
- Copy of un-recorded DPA Loan second mortgage (if applicable).
- Copy of un-recorded assignment of DPA Loan note and second mortgage (if applicable)(Exhibit 7-R).
- Copy of DPA Loan Truth-In-Lending Disclosure form (if applicable).
- Copy of DPA Loan certificate of completion for homebuyer education course (if applicable).
- Copy of the Hazard Insurance Policy and Endorsement reflecting ADFA as second mortgagee if borrower received DPA Loan (if applicable).

The Mortgage Lender is responsible for the timely transfer of Mortgage Loan data to ADFA and the Master Servicer. In any event, the information must be provided within thirty (30) days of the date of Mortgage Loan closing. It is of primary importance that the Mortgagee be protected in this transfer. The Master Servicer and ADFA are on-line together through the Mitas System which allows the Mortgage Lender to send the complete closing package following the Master Services document guide before ADFA's approval is given. The Master Servicer will read the Mitas Pipeline Tracking Status for Closing Approval and then will purchase the Mortgage Loan based on ADFA's Pipeline Tracking Status Criteria.

The Authority has advised you of the identity of the Master Servicer and with the name of a contact person. You should establish contact with the contact person and become familiar with the Master Servicer's delivery guide, Mortgage Loan set-up requirements and transfer procedures.

If you have any questions regarding this data, you should contact the Master Servicer. IT IS YOUR RESPONSIBILITY TO GET COMPLETE DOCUMENTATION TO THE MASTER SERVICER.

The Mortgage Lender is also responsible for advising the borrower of the servicing change. This is done through the "goodbye" letter, as required by RESPA. **Pay close attention to the minimum time requirement of RESPA**. The contents of the "goodbye" letter should be coordinated with the Master Servicer, especially regarding such items as when and where to send payments and customer service numbers.

If you receive a payment after the transfer of a Mortgage Loan, it is your responsibility to forward all payments to the Master Servicer in a timely manner.

If a problem arises regarding the transfer of the Mortgage Loan, you should contact the Master Servicer and the Authority.

C. Program Fees

The Mortgage Lender may, at the appropriate processing stage, collect the following fees:

a. All reasonable and customary out-of-pocket costs permitted by law to be paid or incurred by the Mortgage Lender, including, but not limited to, notary fees, settlement fees, hazard or mortgage insurance premiums, appraisal fees, attorneys fees, documentary revenue stamps, recording fees and charges, credit report fees, flood zone determination fee and escrow fees. Such fees and expenses may be collected only once in connection with the origination of the Mortgage Loan and shall not exceed limits established from time to time by Federal and state law and in any event may not exceed similar amounts charged in such area in cases where owner financing is not provided through tax-exempt revenue bonds. For FHA 203(k) loans, you may collect the customary HUD-allowed fees for appraisals, inspections and review fees. All charges must conform with the guidelines of the appropriate loan insuring agency.

b. All appraisal fees shall comply with the guidelines of the loan insuring agency.

c. Amounts that must be prepaid by Eligible Borrower or Seller for taxes, assessments, hazard insurance premiums and other similar recurring charges. Deposits paid by Eligible Borrower or Seller to a reserve or escrow account for taxes, assessments, hazard insurance premiums and other similar recurring charges.

d. A lock-in deposit not to exceed $100 must be collected for each Mortgage Loan by the originating Mortgage Lender from proposed Eligible Borrower or Seller at time of Mortgage Loan application. Such fee must be credited at Mortgage Loan Closing. This fee is refundable to the borrower in certain circumstances, including but not limited to, denial of the proposed Eligible Borrower because of job or credit; non-qualification of the residence; inability of the proposed Eligible Borrower to meet the requirements of the Tax Code or this Program Guide; or refusal of the Seller to close the transaction. Please call if you have any questions.

e. An origination fee to the Mortgage Lender to be paid by the Eligible Borrower or Seller, not to exceed one percent (1%) of the amount of the Mortgage Loan. Follow HUD guidelines for FHA 203(k) loans.

f. A discount fee paid by the Eligible Borrower or Seller at the Closing of one percent (1%) of the Mortgage Loan amount. This fee must be remitted to ADFA within thirty (30) business days of Mortgage Loan Closing.

g. A tax service fee of $65.00 must be collected from the Seller. This amount will be netted at purchase by the Master Servicer.

h. ADFA charges each Mortgage Lender $25.00 for every Mortgage Loan reservation accepted by ADFA. Each Mortgage Lender will send ADFA the $25.00 fee with the closing package. **The fee is non-refundable and cannot be paid by the borrower.**

YOU MAY NOT COLLECT ANY ADDITIONAL FEES FROM EITHER THE BORROWER OR SELLER. DO NOT COLLECT UNDERWRITING FEES, ADMINISTRATION FEES, MORTGAGE LENDER'S DOCUMENT PREPARATION FEES OR LENDER'S COMMITMENT FEES.

The principal amount of the Mortgage Loan may not exceed the applicable loan-to-value limits as established by HUD, USDARD, VA, or Fannie Mae. The financing of allowable closing costs is acceptable as permitted by the loan insuring agency.

D. Applicable Forms

7-K ADFA Required Closing Documents

7-L Borrower's Closing Affidavit and Certification

7-M Seller's Closing Affidavit and Certification

7-N Mortgage/Deed of Trust Rider

7-O Assignment of Deed of Trust/Mortgage

7-P Notice to Mortgagor of Information Regarding Potential Recapture Tax

7-Q Notice to Homeowner

7-R Assignment of Downpayment Assistance (DPA) Subordinate Mortgage

- Downpayment Assistance (DPA) Note
- Downpayment Assistance (DPA) Subordinate Mortgage

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-K

ADFA REQUIRED CLOSING DOCUMENTS

THE FOLLOWING DOCUMENTS MUST BE SHIPPED TO ADFA WITHIN TEN (10) BUSINESS DAYS OF LOAN CLOSING

Mail To: Single Family AR Development Finance Auth. – P.O. Box 8023, Little Rock, AR 72203-8023

Name of Lending Institution	ADFA Number	DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number	
City/State/Zip Code	Telephone Number	Fax Number
Contact Person for This Loan	Email Address	

NAME OF BORROWER: ______________________________
(Last Name) (First Name) (M.I.)

NAME OF CO-BORROWER: ______________________________
(Last Name) (First Name) (M.I.)

PROPERTY ADDRESS: ______________________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

LOAN AMOUNT: $__________________	COUNTY PROPERTY LOCATED: __________
DPA LOAN AMOUNT**: $**__________________	DATE OF NOTE: __________________

The following CERTIFIED COPIES of documents were attached as closing documents.
The following documents must be Acco-Fastened. Folder is not required.

- ❑ **A. Check** for 1% DISCOUNT FEE and the $25.00 Reservation Fee made payable to Arkansas Development Finance Authority. (Including Home Builders With Approved Application Request) (Commitment Fee may be paid by Seller or Borrower for all loans).
- ❑ **B. Typed copy** of Residential Loan Application with appropriate addendums (**Signed** by **All** parties, including loan interviewer).
- ❑ **C. Copy** of Title Commitment on all loans.
- ❑ **D. Copy** of HUD- 1 SETTLEMENT STATEMENT (**Signed** by **All** parties):
  - **1.** Must reflect $100.00 Credit for Reservation Fee for all loans (including new construction).
  - **2.** Must reflect $65.00 Tax Service Fee paid by Seller (Construction may be paid by Home Builder or Buyer).

3. If Refund on Line 303 to Buyer more than $10.00 for any reason, letter of explanation must accompany closing package (please remember that no cash back to borrower is permitted if a DPA Loan is used).

- ❑ **E. Copy** of Mortgage Note.
- ❑ **F. Copy** of Mortgage/DEED of TRUST and RIDER (EXHIBIT 7-N) and other applicable Rider(s).
- ❑ **G. Copy** of ASSIGNMENT OF MORTGAGE/DEED OF TRUST (EXHIBIT 7-O).
- ❑ **H. ORIGINAL** of Mortgagor's and Seller's Affidavits **(EXHIBITS 7-L and 7-M).**
- ❑ **I. ORIGINAL** NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL RECAPTURE TAX **(EXHIBIT 7-P) (Signed** and **Dated) Note**: Be sure that you have inserted the appropriate county information page for the sample table (7-P page 4) & completed the top portion with the borrower information. A copy should be provided to the borrower at closing.
- ❑ **J. Copy** of Warranty Deed showing who has taken title to property on ALL ADFA loans.
- ❑ **K. Copy** of SUBORDINATE NOTE FOR DPA LOAN **IF APPLICABLE**- Note is endorsed on back as follows:
- ❑ *"Without recourse pay to the order of the Arkansas Development Finance Authority*" (Original must be submitted to the Master Servicer).
- ❑ **L. Copy** of un-recorded SUBORDINATE MORTGAGE FOR DPA LOAN **IF APPLICABLE.** (Original must be submitted to the Master Servicer within 60 days).
- ❑ **M. Copy** of un-recorded ASSIGNMENT OF SUBORDINATE MORTGAGE FOR DPA LOAN (**EXHIBIT 7-R) IF APPLICABLE**. (Original must be submitted to the Master Servicer within 60 days).
- ❑ **N. Copy** of TRUTH-IN-LENDING DISCLOSURE FORM FOR DPA LOAN **IF APPLICABLE.**
- ❑ **O. Copy** of CERTIFICATE OF COMPLETION FOR HOMEBUYER EDUCATION COURSE FOR DPA LOAN **IF APPLICABLE.**
- ❑ **P. Copy** of HAZARD INSURANCE POLICY and ENDORSEMENT reflecting Mortgage Lender and/or "assigns" as second mortgage if borrower obtained DPA Loan **IF APPLICABLE.**
- ❑ **Q. Copy** of First Payment Letter on both First and Second Mortgage Loans.

Mortgage Lender hereby certifies that the above information is true and correct and that the loan has been closed in accordance with the terms of the Mortgage Origination Agreement and the Single Family Program Guide.

FURTHER: Mortgage Lender hereby reaffirms the warranties, representations, and covenants contained in the Mortgage Origination Agreement.

____
(Name of Lending Institution)

By: ______________________
Name: ______________________
Date: ______________________

CLOSING DOCUMENTS HAVE BEEN RECEIVED AND REVIEWED AT ADFA. WE HEREBY AUTHORIZE THE MORTGAGE CLOSING APPROVAL.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY:

By: ______________________
ADFA Mortgage Underwriter______________
Date: ______________________

BORROWER'S CLOSING AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

1. I am a purchaser and mortgagor (the "Borrower") of the residence located at ____________________ ____ and legally described as follows:

Legal Description:

2. I either occupy such residence (or one unit of the duplex constituting such residence) as my principal residence, or I will do so in within sixty (60) days of the date the Mortgage Loan is executed, and I will maintain such property (or units) as my principal residence. (If a duplex, property was occupied as a residence at least five (5) years prior to the date hereof).

3. No part of the Mortgage Loan proceeds is being or will be used to acquire or replace an existing mortgage loan, and I did **not** have a mortgage loan (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage Loan (except that I may have a construction period loan or temporary initial financing of 24 months or less with the respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

4. The purchase price of the residence is $____________ or less. I understand that for the purpose of the foregoing Purchase Price of the residence is the cost of acquiring the residence from the seller as a completed residential unit. The acquisition cost includes:

   a. **All** amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **all** property that is a fixture. The purchase price also includes the acquisition cost of any other item in excess of the fair market value.
   b. If a residence is incomplete, the reasonable cost of completing the residence whether or **not** the cost of completing construction is to be financed with the proceeds of the Mortgage Loan.
   c. (DELETE IF **NOT** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority ("ADFA").

_____/_____
Initial

The acquisition cost does **not** include:

d. The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs also include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.
e. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.
f. The cost of land, which has been owned by any purchaser for, at least two (2) years prior to the date on which construction of the residence began.

5. (CHECK APPROPRIATE RESPONSE). I have □ I have **not** □ had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date on which I will be executing the Mortgage on said residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said residence with me.

   I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

   a. A fee simple interest:
   b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
   c. The interest of a tenant-shareholder in a cooperative;
   d. A life interest;
   e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
   f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;
   g. A lease with an option to purchase for a nominal sum; and
   h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;

d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;

f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

6. The residence contains no more than two separate family dwelling units, if there are two units, one unit **must** have been used as a residence for 5 years, and one of the units **must** be occupied by the borrower as his or her principal residence.

7. I WILL **NOT** PERMIT ANY PERSON TO ASSUME MY OBLIGATIONS UNDER THE MORTGAGE (AND RELATED MORTGAGE NOTE), NOR WILL I TRANSFER TITLE TO THE RESIDENCE (EXCEPT AS SET FORTH IN THE MORTGAGE), UNLESS SUCH PERSON SATISFIERS THE FOREGOING REQUIREMENTS, AND UNLESS THE PURCHASE PRICE OF THE RESIDENCE DOES **NOT** EXCEED THE MAXIMUM PURCHASE PRICE ALLOWED BY ADFA AND SUCH PERSON SO STATES UNDER OATH.

The purchase price limitation, which is required by the federal tax laws, may be a lower number at the time of the assumption than was in effect at the time of the ORGINAL purchase. This may occur in the case of the purchase of a newly constructed home. Is such home has **not** previously been occupied (i.e., at the time of ORIGINAL purchase), such home is subject to the maximum purchase price for the "new construction." However, because such home will have been previously occupied at the time of a subsequent assumption, such home will be subject to the maximum purchase price for an "existing home." This is the case if the ORIGINAL purchaser occupied the home for any period of the time (i.e., technically even one day).

_____/_____
Initial

8. (DELETE THE FOLLOWING IF MORTGAGOR FILED FEDERAL INCOME TAX RETURNS). I have **not** filed, and was under no obligation to file, federal tax returns, the following income tax years: ______________________________.

_____/_____
Initial

9. (DELETE THE FOLLOWING IF MORTGAGOR RESPONDED TO ITEM 3). I have filed federal income tax returns for the most recent tax years.

10. I do **not** expect to use more than 15% of the total area of the residence in a trade or business.

11. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth in paragraph 7), are made and agreed to.

EXHIBIT 7-L

Page 4

12. I understand that if my Mortgage Loan is being Financed (or assumed by a subsequent purchaser) after December 31, 1990, federal law provides for a "recapture tax" which may be applicable to (or a subsequent purchaser) upon the resale of the residence. I acknowledge receipt of the Notices to Mortgagor regarding Potential Recapture Tax, **EXHIBIT 5-F** and **7-P.**

13. I acknowledge that I have received and executed the "Notice to Buyers" regarding potential foreclosure, which notice shall be deemed incorporated herein by reference.

BORROWER: **CO-BORROWER:**

BORROWER	CO-BORROWER
X________________________________	X________________________________
Name_____________________________	Name_____________________________
Date_____________________________	Date_____________________________

ACKNOWLEGMENT

STATE OF ARKANSAS)
COUNTY OF ______________________)

On this ______ day of ____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared ____, to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Borrower's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of ______________, 20____.

____
Notary Public

My Commission Expires:

____
(SEAL)

SELLER'S CLOSING AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

1. I am a seller of the residence located at ______________________________ ______________________________, and legally described as follows:

Legal Description:

2. The selling price of the residence is $ ____________ or less.

I understand that for the purpose of the foregoing the selling price of the residence is the purchaser's cost of acquiring the residence from me as a completed residential unit. The acquisition cost includes:

a. **All** amounts paid, either cash or in kind, by the purchaser (or related party or for the benefit of the purchaser) to me as seller (or a related party or for the benefit of me as the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **all** property that is a fixture. The purchase price also includes the acquisition cost of any other items in excess of their fair market value.

b. If the residence is incomplete, the reasonable cost of completing the residence whether or **not** the cost of completing construction is to be financed with the proceeds of the purchaser's Mortgage Loan.

____/____
Initial

c. (DELETE IF **NOT** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority (the "ADFA") (________%).

∗The acquisition cost does **not** include:

d. The usual and reasonable settlement or financing cost. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.

e. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.

f. The cost of land which been owned by any purchaser for at least two (2) years prior to the date on which construction of the residence begins.

3. To the best of my knowledge, no part of the Mortgage Loan proceeds is or will be paid to acquire or replace an existing mortgage of the purchaser, and the purchaser did **not** have a mortgage (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage (except that the purchaser may have a construction period loan or temporary initial financing of 24 months or less with respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

4. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth below), are made and agreed to.

Seller: ______________________	**Seller:**
(x)______________________	(x)______________________
Name:______________________	Name:______________________
Date:______________________	Date:______________________

ACKNOWLEGMENT

STATE OF ARKANSAS ______________)
COUNTY OF ______________________)

On this ______ day of ____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared ____ ______________________________, to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Seller's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _____________, 20____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-N

MORTGAGE/DEED OF TRUST RIDER

This Rider is made this ______ day of _______________, 20____, and is incorporated into and shall be deemed to supplement the Deed of Trust/Mortgage of the same date given by the undersigned borrowers to the Mortgage.

The Mortgagee,____ or such of its successors or assigns as may by separate instrument assume responsibility for assuring compliance by the Mortgagor with the provisions of this, may declare all sums secured by this Mortgage to be immediately due and payable if:

a) all or part of the property is sold or otherwise transferred (other than by devise, descent or operation of law) by Mortgagor to a purchaser or other transferee:

   i. who cannot reasonably by expected to occupy the property as a principal residence within a reasonable time after the sale or transfer, all as provided in Section 143(c) and (I)(2) of the Internal Revenue Code of 1986, as amended (the "Code");

   ii. who has had a present ownership interest in a principal residence during any part of the three-year period ending on the date of the sale or transfer, all as provided in Section 143(d) and (I)(2) of the Code (except that the language "100 percent" shall be submitted for "95 percent or more" where the latter appears in Section 143(d)(1); or:

   iii. at an acquisition cost which is greater than 90 percent of the average area of purchase price, all as provided in Sections 143(e) and (I)(2) of the Code; or

   iv. who has a gross family income in excess of the applicable percentage of applicable median family income as provided in Section 143(f) and (I)(2) of the Code; or

b) Mortgagor fails to occupy the property described in the Mortgage without prior written consent of the Mortgagee or its successor or assigns described at the beginning of the Addendum; or

c) Mortgagor omits or misrepresents a fact that is material with respect to the provisions of Section 143 of the Code in an application for this Mortgage.

References are to the Code in effect on the date of execution of the Mortgage and are deemed to include the implementing Treasury Department regulations

MORTGAGOR: **CO-MORTGAGOR:**

(x)______________________________	(x)______________________________
Name:____________________________	Name:____________________________
Date:____________________________	Date:____________________________

PROPERTY ADDRESS:____
(Mailing Address) (As on Note & Mortgage)(Street Number/City/State/Zip Code)

ASSIGNMENT OF DEED OF TRUST/MORTGAGE

KNOW ALL MEN BY THESE PRESENTS, that ____, for good and valuable consideration to it in hand paid by The Leader Mortgage Company, Cleveland, Ohio, organized under the laws of the State of Ohio ("Assignee"), the receipt of which consideration is hereby acknowledged, does hereby assign, transfer, and set over unto Assignee all its right, title and interest in and to that certain Deed of Trust/Mortgage executed ____ unto ____, Mortgage dated ______________________, and filed of record in the office of the Circuit Clerk and Ex Officio Recorder of _____________________ County, Arkansas on the _____ day of ______________, ______, and appearing of record in Book # _________, Page # _______________, or Instrument # _____________________, together with the notes(s) and indebtedness described and secured by the instrument aforesaid.

Legal Description:

TO HAVE AND TO HOLD the same unto the said Assignee and its successors and assigns forever.

EXECUTED AND DELIVERED this ______ day of ____________________________, 20____.

____
NAME OF ASSIGNOR/LENDING INSTITUTION
By: ___________________________________
Title: __________________________________
Name: ____________________________
Date: _________________

ATTESTATION:

____
____
(Printed Name)

STATE OF ARKANSAS ______________)
COUNTY OF _____________________)

BEFORE ME, the undersigned, a Notary Public, within and for the said County and State, duly commissioned and qualified, personally appeared ______________________________ and ______________ ______________________________ as ASSIGNOR, and were duly authorized in their respective capacities to execute the foregoing instrument for and in the name of and on behalf of said ASSIGNOR, and further stated and acknowledged that they had so signed, executed, and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

WITNESS my hand and Notarial Seal at my office in said ___________________ County this _____ day of ______________, 2____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-P

NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL RECAPTURE TAX

TO BE DELIVERED TO MORTGAGOR AT TIME
OF SETTLEMENT OR ASSUMPTION OF MORTGAGE LOAN

Your mortgage loan has been financed with the proceeds of a tax-exempt qualified mortgage bond. As a result, pursuant to Section 143(m) of the Internal Revenue Code of 1986 (the "Code"), you may, at the time at which you resell the residence financed by the Mortgage Loan, be subject to a special "recapture tax" for federal income tax purposes. You should consult you tax advisor at the time of resale by you of the residence to determine the amount, if any, of such "recapture tax." The following information will assist you in determining the amount, if any, of "recapture tax."

1. Name of Morgagor:____
(Last Name) (First Name) (M.I.)
Name of Co-Mortgagor: ____
(Last Name) (First Name) (M.I.)
2. Date of Settlement of Mortgage Loan: ____
3. Location of Residence: ____
____
4. Check appropriate box:
Residence ☐ is ☐ is not located within a targeted area.
5. Principal amount of Mortgage Loan on date of settlement: $__________________
6. Federally subsidized amount pursuant to Section 143(m)(4)(B) of the Code (6.25%): $_________.

A. Introduction

1. General. When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home. For instance, you may owe a recapture tax if you give you home to a relative.
2. Exceptions. In the following situations, no recapture tax is due and you do not need to do the calculations:

(i) You dispose of your home later than nine years after you close your Mortgage Loan;
(ii) Your home is disposed of as a result of your death;
(iii) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under Section 1041 of the Code; or
(iv) You dispose of your home at a loss.

B. Maximum Recapture Tax. The maximum recapture tax that you may be required to pay as an addition to your federal income tax is $ ________________. This is 6.25% of the highest principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

C. Actual Recapture Tax. The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of (1) 50% of your net gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income purposes or (2) your recapture tax, determined by multiplying the following three numbers:

(i) $ ______________________ (the maximum recapture tax, as described in paragraph B above),
(ii) The holding period percentage, as listed in Column 1 in the Table, and is _________.
(iii) The income percentage, as described in paragraph D below is ____________.

D. Income Percentage. You calculate the income percentage as follows:

(i) Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in Column 2 in the Table, from your modified adjusted gross income in the taxable year in which you sell your home. Your modified adjusted income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under Section 103 of the Code) and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

(ii) If the amount calculated in (i) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is $5,000 or more, your income percentage is 100%. If it is greater that zero but less than $5,000, it must be divided by $5000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is $1,000/$5,000, your income percentage is 20%.

E. Limitations and Special Rules on Recapture Tax.

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

2. If your home is destroyed by fire, storm, flood or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized Mortgage Loan.

3. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized Mortgage Loan, the actual recapture tax is determined separately for them based on their interests in the home.

4. If you repay your Mortgage Loan in full during the nine-year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(c)(ii) of the Code.

5. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your actual recapture tax. See Section 143(m) of the Code generally.

****See Sample Chart Available***

The undersigned Mortgagor(s) has (have) received and read a duplicate copy of the forgoing Notice to Mortgagor of Information Regarding Potential Recapture Tax.

MORTGAGOR:	**CO-MORTGAGOR:**
(x) ______________________________	(x) ______________________________
Name: ___________________________	Name: ___________________________
Date: ____________________________	Date: ____________________________

SAMPLE ONLY
Mortgage Lender must use correct county document

County: Arkansas

Borrower's Name:

Co-Borrower's Name:

Tracking Number:

Date That You Sell Your Home	**Holding Period Percentage**	**Adjusted Qualifying Income**	
		# of Family Members Living In Your Home at the Time of Sale	
		2 or less	**3 or more**
Before the first anniversary of closing (See Note below)	20%	34,700.00	39,905.00
On or after the first anniversary of closing, but before the second anniversary of closing	40%	36,435.00	41,900.25
On or after the second anniversary of closing, but before the third anniversary of closing	60%	38,256.75	43,995.26
On or after the third anniversary of closing, but before the fourth anniversary of closing	80%	40,169.59	46,195.03
On or after the fourth anniversary of closing, but before the fifth anniversary of closing	100%	42,177.85	48,504.53
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	44,286.92	50,929.95
On or after the sixth anniversary of closing, but before the seventh anniversary of closing	60%	46,501.47	53,476.69
On or after the seventh anniversary of closing, but before the eighth anniversary of closing	40%	48,826.37	56,150.33
On or after the eighth anniversary of closing, but before the ninth anniversary of closing	20%	51,267.86	58,958.04

NOTE: Closing means the closing date of your loan.

Please insert here the correct County Income Limit Sheet for your county each year.

NOTICE TO HOMEOWNER

FHA Case Number:

Loan Number:

Notice to Homeowner
Assumption of HUD/FHA Insured Mortgages
Release of Personal Liability

You are legally obligated to make the monthly payments required by your Mortgage (deed of trust) and Mortgage Note.

The Department of Housing and Urban Development (HUD) has acted to keep investors and non-creditworthy purchasers from acquiring one-to-four family residential properties covered by certain FHA-insured mortgages. There are minor exceptions to the restriction on investors: loans to public agencies and some non-profit organizations, Indian tribes or service people; loans under special mortgage insurance programs for property sold by HUD; rehabilitation loans or refinancing of insured mortgages. Your lender can advise you if you are included in one of the exceptions.

HUD will therefore direct the lender to accelerate this FHA-insured mortgage loan if all or part of the property is sold or transferred to a purchaser or recipient (1) who will not occupy the property as his or her principal residence, or (2) who does occupy the property but whose credit has not been approved in accordance with HUD requirements. This policy will apply except for certain sales or transfers where acceleration is prohibited by law.

When a Mortgage Loan is accelerated, the entire balance is declared "immediately due and payable." Since HUD will not approve the sale of the property covered by this Mortgage to an investor or to a person whose credit has not been approved, you, the original homeowner, would remain liable for the Mortgage debt even though the title to the property might have been transferred to a new buyer.

Even if you sell your home by letting an approved purchaser (that is, a creditworthy owner-occupant) assume your mortgage, you are still liable for the mortgage debt unless you obtain a release from liability from your mortgage lender. FHA-approved lenders have been instructed by HUD to prepare such a release when the original homeowner sells his property to a creditworthy purchaser who executes an agreement to assume and pay the Mortgage debt and thereby agrees to become the substitute mortgagor. The release is contained in Form HUD-92210-1 ("Approval of Purchaser and Release of Seller"). You should ask for it if the Mortgage Lender does not provide it to you automatically when you sell your home to a creditworthy owner-occupant purchaser who executes an agreement to assume personal liability for the debt. When this form is executed, you are no longer liable for the mortgage debt.

You must sign and date this Notice as indicated, return one copy to your lender as proof of notification and keep one copy for your records.

Date: ____________ ____

____

______________________________________ ____

____

Instructions to Mortgage Lender: A copy of this notice must be given to the Mortgagor(s) on or before the date of settlement. You should retain a signed copy in the Mortgage File.

NOTE
(ADFA DOWNPAYMENT ASSISTANCE PROGRAM)

DATE: ______________________________ ______________________________
City, State

PROPERTY ADDRESS: ____
(Street) (City/State/Zip)

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received (the "Loan"), I promise to pay U.S. $_________(this amount is called "principal"), plus interest to the order of the Lender. The Lender is ___________ ____________, a ______________________________organized and existing under the laws of the State of____. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

The Loan evidenced by this Note is being made pursuant to the Arkansas Development Finance Authority Downpayment Assistance Program.

The Loan is being made in order to assist me in purchasing the Property. The sales price of the Property is $_____________________.

2. INTEREST

Interest will be charged on the unpaid principal until the full amount of principal has been paid. I will pay interest at a yearly rate of _______%. The interest rate required by this Section 2 is the rate I pay both before and after any default described in Section 6(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay principal and interest as provided in Section 2 above by making payments every month.

I will make my monthly payments on the first day of each month beginning on the first day of ________________, 2____. I will make these payments every month until I have paid all the principal and interest, if any, and any other charges described below that I may owe under this Note. My monthly payments will be applied to interest before principal. If, on the first day of______________, 2____, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date."

The principal amount of this Note shall be due and payable in full upon acceleration of the Note in the event of a default hereunder of the Subordinate Security Interest, or on the date of the first sale or transfer of the Property to occur after the date of this Note.

I will make my payments at ____ or at a different place if required by the Note Holder.

The indebtedness evidenced by this Note, and any other financial obligation which may hereafter be imposed on me by the Lender, is subordinate to the indebtedness evidenced by a note payable to a senior lender, which note is secured by a first mortgage on the Property (the "First Mortgage").

(B) Amount of Monthly Payments

My monthly payments will be in the amount of U.S. $______________________.

4. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment." When I make a prepayment, I will tell the Note Holder in writing that I am doing so.

I may make a full prepayment or partial prepayments without paying a prepayment charge. The Note Holder will use all of my prepayments to reduce the amount of principal that I owe under this Note. If I make a partial prepayment, there will be no changes in the due date or in the amount of my monthly payment unless the Note Holder agrees in writing to those changes.

I have the right to prepay the principal amount of this Note, together with any accrued interest without any prepayment charge provided that such prepayment is in full or not in part.

5. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then; (i) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from me which exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

6. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 4% of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.

(B) Default

If I do not pay the full amount of each monthly payment on the date that it is due, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is delivered or mailed to me.

(D) No Waiver By Note Holder

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described above, the Note Holder will still have the right to do so if I am in default at a later time.

(E) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back by me for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

7. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3 (A) above or at a different address if I am given a notice of that different address.

8. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of guarantor, surety or endorser of this Note, is also obligated to keep all the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

9. WAIVERS

I and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of dishonor" means the right to require the Note Holder to give notice to other persons that amounts due have not been paid.

10. UNIFORM SECURED NOTE

In addition to the protections given to the Note Holder under this Note, a Subordinate Mortgage (the "Subordinate Security Instrument"), dated the same date as this Note, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. The Subordinate Security Instrument is and shall be subject and subordinate in all respects to the liens, terms, covenants and conditions of the First Mortgage. The Subordinate Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions are described as follows:

Transfer of the Property or a Beneficial Interest in Borrower. Except for a conveyance to the Senior Lien Holder under the First Mortgage, if all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower and the Senior Lien Holder prior written notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

Witness the hand(s) and seal(s) of the undersigned.

____(Seal)
-Borrower

____
(Borrower's Typed Name)

____(Seal)
-Borrower

____
(Borrower's Typed Name)

SUBORDINATE MORTGAGE
(ADFA DOWNPAYMENT ASSISTANCE PROGRAM)

THIS SUBORDINATE MORTGAGE ("Security Instrument") is made on this ______ day of ________________, 2____. The grantor is ______________________________________ ("Borrower"). This Security Instrument is given to ____________________________________, organized and existing under the laws of the State of ______________________ and whose address is ____ ("Lender"). Borrower owes Lender the principal sum of $________________________. This debt is evidenced by the Borrower's note dated the same date as this Security Instrument ("Note").

The Note provides that the full debt, if not paid earlier, shall be due and payable on the ______, day of ____________________, 2____ the "Maturity Date" of the Note.

The loan evidenced by the Note and secured by this Security Instrument (the "Loan") is being made pursuant to the Arkansas Development Finance Authority Downpayment Assistance Program. In addition to the Loan, the Borrower obtained a mortgage loan (the "First Mortgage Loan") from ____________________________ organized and existing under the laws of the State of _____________________________ (the "Senior Lien Holder"), which loan is secured by a first mortgage lien on the Property (the "First Mortgage"). The documents evidencing or securing the First Mortgage Loan are collectively referred to herein as the First Mortgage Loan Document.

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest as provided in the Note, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, with interest as provided in the Note, advanced under paragraph 8 herein to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably mortgages, grants and conveys to Lender and Lender's successor and assigns, with power of sale, subject to the rights of the Senior Lien Holder under the First Mortgage, the property located in _________________________County which has the address of ____ and is further described in Exhibit A attached hereto ("Property Address");

TO HAVE AND TO HOLD this property unto Lender and Lender's successors and assigns, forever, all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and, except for the First Mortgage and the other encumbrances of record acceptable to the Senior Lien Holder, the Property is unencumbered. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to such encumbrances of record.

Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest; Prepayment and Late Charges. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any late charges due under the Note.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum

("Funds") for: (a) yearly taxes and assessments which may attain priority over this Security Instrument as a lien on the Property; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard or property insurance premiums; (d) yearly flood insurance premiums, if any; (e) yearly mortgage insurance premiums, if any; and (f) any sums payable by Borrower to Lender, in accordance with the provisions of paragraph 9, in lieu of the payment of mortgage insurance premiums. These items are called "Escrow Items." Lender may, at any time, collect and hold Funds in an amount not to exceed the maximum amount a lender for a federally related mortgage loan may require for Borrower's escrow account under federal Real Estate Settlement Procedures Act of 1974 as amended from time to time, 12 U.S.C. Section 2601 et seq. ("RESPA"), unless another law that applies to the Funds sets a lesser amount. If so, Lender may, at any time, collect and hold Funds in an amount not to exceed the lesser amount. Lender may estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with applicable law. The Borrower shall not be obligated to make such payments of Funds to the Lender to the extent that the Borrower makes such payments to the Senior Lien Holder in accordance with the First Mortgage.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentally, or entity (including Lender, if Lender is such an institution) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items. Lender may not charge the Borrower for holding and applying the Funds, annually analyzing the escrow account, verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and the applicable law permits Lender to make such a charge. However, Lender may require Borrower to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with this loan, unless applicable law provides otherwise. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender may agree in writing, however, that interest shall be paid on the Funds. Lender shall give Borrower, without charge, an annual accounting of the Funds, showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for all sums secured by this Security Instrument.

If the Funds held by Lender exceed the amounts permitted to be held by applicable law, Lender shall account to Borrower for the excess Funds in accordance with the requirements of applicable law. If the amount of the Funds held by Lender at any time is not sufficient to pay the Escrow Items when due, Lender may so notify Borrower in writing, and, in such case Borrower shall pay the Lender the amount necessary to make up the deficiency. Borrower shall make up the deficiency in no more than twelve monthly payments, at Lender's sole discretion.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If, under paragraph 23, Lender shall acquire or sell the Property, Lender, prior to the acquisition or sale of Property, shall apply any Funds held by Lender at the time of the acquisition or sale as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to any prepayment charges due under the Note; second, to amounts payable under paragraph 2; third, to interest due; fourth, to principal due; and last, to any late charges due under the Note.

4. Prior Mortgages; Charges; Liens. The Borrower shall perform all of the Borrower's obligations under the First Mortgage, including Borrower's covenants to make payments when due. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this

paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Except for the lien of the First Mortgage, Borrower shall promptly discharge any other lien which shall have attained priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith to lien by, or defends against enforcement of the lien, in legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. Except for the lien of the First Mortgage, if Lender determines that any part of the Property is subject to a lien, which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy such lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Subordination. Lender and Borrower acknowledge and agree that this Security Instrument is subject and subordinate in all respects to the liens, terms, covenants and conditions of the First Mortgage and to all advances heretofore made or which may hereafter be made pursuant to the First Mortgage, including all sums advanced for the purpose of (a) protecting or further securing the lien of the First Mortgage, curing defaults by the Borrower under the First Mortgage or for any other purpose expressly permitted by the First Mortgage or (b) constructing, renovating, repairing, furnishing, fixturing or equipping the Property. The terms and provisions of the First Mortgage are paramount and controlling, and they supersede any other terms and provisions hereof in conflict therewith. In the event of a foreclosure or deed in lieu of foreclosure of the First Mortgage, any provisions herein or any provisions in any other collateral agreement restricting the use of the Property to low or moderate income households or otherwise restricting the Borrower's ability to sell the Property shall have no further force or effect on subsequent owners or purchasers of the Property. Any person, including his successors or assigns (other than the Borrower or related entity of the Borrower), receiving title to the Property through a foreclosure or deed in lieu of foreclosure of the First Mortgage shall receive title to the Property free and clear from such restrictions.

Further, if the Senior Lien Holder acquires title to the Property pursuant to a deed in lieu of foreclosure, the lien of this Security Instrument shall automatically terminate upon the Senior Lien Holder's acquisition of title, provided that (i) the Lender has been given written notice of a default under the First Mortgage and (ii) the Lender shall not have cured the default under the First Mortgage, or diligently pursued curing the default as determined by the Senior Lien Holder, within 60-day period provided in such notice sent to the Lender.

6. Hazard or Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards, including floods or flooding, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval, which shall not be unreasonably withheld. If Borrower fails to maintain coverage described above, Lender may, at Lender's option, obtain coverage to protect Lender's rights in the Property in accordance with paragraph 8.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgagee clause. All requirements hereof pertaining to insurance shall be deemed satisfied if the Borrower complies with the insurance requirements under the First Mortgage. All original policies of insurance required pursuant to the First Mortgage shall be held by the Senior Lien Holder; provided, however, Lender may be named as a loss payee as its interest may appear and may be named as an additional insured. If Lender requires, Borrower shall promptly give to Lender copies of all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier, the Senior Lien Holder and Lender. Lender may make proof of loss if not made promptly by the Senior Lien Holder or the Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 and 2 or change the amount of the payments. If under paragraph 23 the Property is acquired by Lender, Borrower's rights to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to acquisition.

Notwithstanding the above, the Lender's rights to collect and apply the insurance proceeds hereunder shall be subject and subordinate to the rights of the Senior Lien Holder to collect and apply such proceeds in accordance with the First Mortgage.

7. Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate, or commit waste on the Property. Borrower shall be in default if any forfeiture action or proceeding, whether civil or criminal, is begun that in Lender's good faith judgment could result in forfeiture of the Property or otherwise materially impair the lien created by this Security Instrument or Lender's security interest. Borrower may cure such a default and reinstate as provided in paragraph 19, by causing the action or proceeding to be dismissed with a ruling that in Lender's good faith determination, precludes forfeiture of the Borrower's interest in the Property or other material impairment of the lien created by this Security Instrument or Lender's security interest. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning (i) Borrower's occupancy of the Property as a principal residence and (ii) Borrower's income. If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

8. Protection of Lender's Rights in the Property. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect the Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture or to enforce laws or regulations), the Lender may do and pay for whatever is necessary to protect the value of the Property and the Lender's rights in the Property. Lender's actions may include paying any sums by a lien, which has priority over this Security Instrument (including sums secured by the First Mortgage), appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 8, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 8 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

Prior to taking any actions under this Section 8, however, Lender shall notify the Senior Lien Holder of such default in the manner provided in Section 23 of this Security Instrument, and shall provide the Senior Lien Holder with the opportunity to cure any such default under this Security Instrument. All amounts advanced by the Senior Lien Holder to cure a default hereunder shall be deemed advanced by the Senior Lien Holder and shall be secured by the First Mortgage. In addition, the Lender agrees that it will not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any other rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice. Any action by Lender hereunder to foreclose or accept a deed in lieu of foreclosure shall be subject to the "due on sale" provisions of the First Mortgage.

Lender and Borrower further agree that a default hereunder shall constitute a default under the First Mortgage. In the event of a default hereunder, the Senior Lien Holder shall have the right to exercise all rights and remedies under the First Mortgage.

9. Mortgage Insurance. If Lender required mortgage insurance as a condition of making the loan secured by this Security Instrument, Borrower shall pay the premiums required to maintain the mortgage insurance in effect. If, for any reason, the mortgage insurance coverage required by Lender lapses or ceases to be in effect, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the mortgage insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the mortgage insurance previously in effect, from an alternate mortgage insurer approved by Lender. If substantially equivalent mortgage insurance coverage is not available, Borrower shall pay to Lender each month a sum equal to one-twelfth of the yearly mortgage insurance premium being paid by Borrower when the insurance coverage lapsed or ceased to be in effect. Lender will accept, use and retain these payments as a loss reserve in lieu of mortgage insurance. Loss reserve payments may no longer be required, at the option of the Lender, if mortgage insurance coverage (in the amount and for the period that Lender requires) provided by an insurer approved by Lender again becomes available and is obtained. Borrower shall pay the premiums requires to maintain mortgage insurance in effect, or to provide a loss reserve, until the requirement for mortgage insurance ends in accordance with any written agreement between Borrower and Lender or applicable by law.

10. Inspection. Lender or its agent may make reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to an inspection specifying reasonable cause for inspection.

11. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender, subject to the terms of the First Mortgage.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is less than the amount of the sums secured immediately before the taking, unless Borrower and Lender otherwise agree in writing or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemner offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 and 2 or change the amount of such payments.

12. Borrower not Released; Forbearance By Lender Not a Waiver. Extension of time for payment or modification of amortization of the sums secured by the Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

13. Successors and Assigns Bound; Joint and Several Liability; Co-Signers. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns the Lender and Borrower, subject to the provisions of paragraph 18. Borrower's covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to mortgage, grant and convey the Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without that Borrower's consent; provided, however, that such modification or accommodation shall not be made without the prior written consent of the Senior Lien Holder.

14. Loan Charges. If the Loan secured by this Security Instrument is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the loan exceed the permitted limits, then; (a) any such loan charges shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from the Borrower which exceed permitted limits will be refunded to Borrower. Lender may chose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

15. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice required to be given to Senior Lien Holder shall be given by first class mail to the following address:

____
____
____

or such other address the Senior Lien Holder designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

16. Governing Law; Severability. This Security Instrument shall be governed by federal law and the laws of the State of Arkansas. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

17. Borrower's Copy. Borrower shall be given one conformed copy of the Note and of this Security Instrument.

18. Transfer of the Property or a Beneficial Interest in Borrower. Except for a conveyance to the Senior Lien Holder under the First Mortgage, if all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower and the Senior Lien Holder prior written notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

Notwithstanding Lender's right to invoke any remedies hereunder, as provided in Section 8 above, Lender agrees that it will not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any other rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice.

The Borrower and the Lender agree that whenever the Note or this Security Instrument gives the Lender the right to approve or consent with respect to any matter affecting the Property (or construction of any improvements thereon) or otherwise (including the exercise of any "due on sale" clause), and a right of approval or consent with regard to the same matter is also granted to the Senior Lien Holder pursuant to the First Mortgage, the Senior Lien Holder's approval or consent or failure to approve or consent, as the case may be, shall be binding on the Borrower and the Lender.

19. Borrower's Right to Reinstate. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earlier of: (a) 5 days (or such other period as applicable law may specify for reinstatement) before sale of the Property pursuant to any power of sale contained in this Security Instrument; or (b) entry of a judgment enforcing this Security Instrument. Those conditions are that the Borrower: (a) pays the Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys fees; and (d) takes such action as Lender may reasonably require to assure that the lien of this Security Instrument, Lender's rights in the Property and Borrower's obligation to pay the sums secured by this Security Instrument shall continue unchanged. Upon reinstatement by Borrower, this Security Instrument and the obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under paragraph 18.

20. Sale of Note; Change of Loan Servicer. The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 15 above and applicable law. The notice will state the name and address of the new Loan Servicer and the address to which payments should be made. The notice will also contain any other information required by applicable law.

21. No Assignment. Until the loan secured by the First Mortgage has been satisfied in full, the Lender and the Borrower agree that the Note and the Security Instrument will not be assigned without the Senior Lien Holder's prior written consent.

22. Hazardous Substances. Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, or allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use, or storage of the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit, or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Prior to taking any such remedial action, however, the Borrower shall notify the Senior Lien Holder that such remedial action is necessary and shall obtain the Senior Lien Holder's prior written consent for such remedial action.

As used in paragraph 22, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances; gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in this paragraph 22, "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

Borrower and Lender further covenant and agree as follows:

23. Acceleration; Remedies. Lender shall give notice to Borrower and the Senior Lien Holder prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument. The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower (and with respect to the Senior Lien Holder, 60 days from the date the notice is given to the Senior Lien Holder), by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured by the Borrower on or before the date specified in the notice, and the Senior Lien Holder has not exercised its right to cure the default, then Lender at its option may require immediate payment in full of all sums secured by this Security Instrument without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Notwithstanding Lender's right to invoke any remedies hereunder, as provided in Section 8 above, the Lender agrees that it will

not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this paragraph 23, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall mail copies of a notice of sale in the manner prescribed by applicable law to Borrower, the Senior Lien Holder and to the other persons prescribed by applicable law. Lender shall publish the notice of sale by public advertisement for the time in the manner prescribed by applicable law. Lender, without demand on Borrower, shall sell the Property at public auction to the highest bidder for cash at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Lender determines. Lender may postpone sale of all or any parcel of the Property to any later time on the same date by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Lender shall deliver to purchaser Lender's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Lender's deed shall be prima facie evidence of the truth of the statements made therein. Lender shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

24. Release. Upon payment of all sums secured by this Security Instrument, Lender shall release this Security Instrument without charge to Borrower. Borrower shall pay any recordation costs.

25. Modification of First Mortgage Loan Document. The Lender consents to any agreement or arrangement in which the Senior Lien Holder waives, postpones, extends, reduces or modifies any provisions of the First Mortgage Loan Documents, including any provisions requiring the payment of money.

BY SIGNING BELOW, the Borrower and the Lender accept and agree to the terms and covenants contained in this Security Instrument.

BORROWERS:

(x)______________________________

____

(Borrower's Typed Name)

(x)______________________________

____

(Borrower's Typed Name)

LENDER:__________________________

By:______________________________

(Signature)

____

(Name and Title)

ATTEST:

____

(SEAL)

ACKNOWLEDGMENT OF BORROWERS

State of Arkansas ____________)
_____________________________)ss.
County of _________________)

On this ______ day of ________________________, 2_____, before me, the undersigned duly commissioned Notary Public, within and for said County and State, appeared the within named ____ to me personally known as the grantor in the foregoing Mortgage, and acknowledged that he/she signed, executed and delivered the same on the day and the year therein mentioned and set forth.

Witness my hand and notarial seal this _____ day of ____________________, 2____.

____
Notary Public

My commission Expires:

____
(SEAL)

ACKNOWLEDGMENT OF LENDER

State of Arkansas ____________)
_____________________________)ss.
County of _________________)

On this ______ day of ________________________, 2 ______, before me, a notary public, personally appeared ___________________________________ and ______________________________, respectively, of ________________________________ to me personally known, who stated that they were duly authorized in their respective capacities to execute the foregoing instrument and further stated that they had signed, executed and delivered said instrument for consideration, uses and purposes therein mentioned and set forth.

In witness whereof, I have hereunto set my hand and official seal, this _____ day of ____________________, 2____.

____
Notary Public

My commission Expires:_________________________
(SEAL)

EXHIBIT A
PROPERTY DESCRIPTION

_______________________________, 2_______
Settlement Date

_______________________________ _______________________________
Property Address Name of Borrower

_______________________________ _______________________________
City, State, Zip code Name of Borrower

Legal Description:

ASSIGNMENT OF DOWNPAYMENT ASSISTANCE (DPA) SUBORDINATE MORTGAGE

KNOW ALL MEN BY THE PRESENTS, that ______________________________, for good and valuable consideration to it in hand paid by the Arkansas Development Finance Authority, organized under the laws of the State of Arkansas ("Assignee"), the receipt of which consideration is hereby acknowledged, does hereby assign, transfer, and set over unto Assignee all its rights, title and interest in and to that certain Subordinate Mortgage executed by ____ unto ____, Mortgagee dated ______________________, and filed of record in the office of the Circuit Clerk and Ex Officio Recorder of ______________________ County, Arkansas on the _____ day of ______________, ______, and appearing of record in Book # _________, Page # ______________, or Instrument #_____________________, together with the notes(s) and indebtedness described and secured by the instrument aforesaid.

Legal Description:

TO HAVE AND TO HOLD the same unto the said Assignee and its successors and assigns forever.

EXECUTED AND DELIVERED this ______ day of ___________________________, 20____.

____
NAME OF ASSIGNOR/LENDING INSTITUTION
By: ____________________________________
Title: ____________________________________
Name: ______________________________
Date: ___________________

ATTESTATION:

____

____
(Printed Name)

STATE OF ARKANSAS)
COUNTY OF______________________)

BEFORE ME, the undersigned, a Notary Public, within and for the said County and State, duly commissioned and qualified, personally appeared ____________________________________ and ________________________________ as ASSIGNOR, and were duly authorized in their respective capacities to execute the foregoing instrument for and in the name of and on behalf of said ASSIGNOR, and further stated and acknowledged that they had so signed, executed, and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

WITNESS my hand and Notarial Seal at my office in said ____________________ County this _____ day of _______________, 2____.

My Commission Expires: ______________________________ Notary Public

____
(SEAL)

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 8 – MORTGAGE LOAN SALE TO MASTER SERVICER

A. Closing-Purchase/Sale

Once ADFA approves the Mortgage Loan for compliance and issues a Form 6-H, you may schedule the Closing. The Mortgage Lender will close the Mortgage Loan, send the appropriate documents for recording and deliver the appropriate documents to the Master Servicer and ADFA. Closing of the Mortgage Loan must occur no later than one hundred eighty (180) days after the Mortgage Loan reservation date. You must submit the Closing documents to ADFA within thirty (30) days of Closing. If no other documentation is needed, an ADFA representative will sign Exhibit 7-K and fax a copy to you. You may elect to attach a signed copy of the Exhibit 7-K to the Closing documents submitted to the Master Servicer. The Master Servicer is not obligated to purchase any Mortgage Loan if the Mortgage File takes longer than thirty (30) days to be delivered. If you elect to speed up the process, the Mortgage Lender may send a closing package to Master Servicer at the same time. The Master Servicer will purchase the Mortgage Loan based on the electronic approval from ADFA.

Closing issues are addressed more comprehensively in Chapter 7 and the Master Servicer section of this Program Guide. Use Exhibit 8-S **Notice of Sale of Servicer** to notify the Borrower(s).

B. Schedules

Please note that the Master Servicer has provided the following delivery checklists for use with the following categories of Mortgage Loans: FHA Loans, VA Loans, Conventional Loans and USDA Rural Development Loans. For your convenience, ADFA has included copies of those four checklists below.

C. Trailing Documents

The final step in the process is delivering the original recorded mortgage, assignment and final title policy. The Mortgage Lender is required to deliver these documents as soon as you receive them. We have established a maximum of 180 days from the date of Closing to get your documents recorded and delivered. ADFA or the Master Servicer may require you to repurchase any Mortgage Loan for failure to meet the 180 day time frame.

FORM OF NOTICE OF SALE TO SERVICER

Dear Borrower:

As required by Section 6 of the Real Estate Settlement Procedure Act (RESPA) (12 U.S.C. Section 2605), you are hereby notified that the servicing of your Mortgage Loan, that is, the right to collect payments from you, is being transferred from ______________________________ to The Leader Mortgage Company effective 15 days from the date of this letter.

The transfer of servicing of your Mortgage Loan does not affect any term or condition of the mortgage instruments other than terms directly related to the servicing of your loan. Except in limited circumstances, the law requires that your present servicer send you this notice at least 15 days before the effective date or at closing. Your new servicer must also send you this notice no later than 15 days after this effective date or at Closing.

If you have any questions relating to the transfer of servicing from your present servicer, please call ______________________, between the hours of ____________________, Monday through Friday. ____________________________ will forward any payments received on your loan to The Leader Mortgage Company.

Your new servicer will be The Leader Mortgage Company. Their business address is 1015 Euclid Avenue, Cleveland, Ohio 44115. Call them at 1-800-240-7890 with any questions relating to the transfer of servicing between the hours of 8:00 AM and 5:00 PM. The Leader Mortgage Company will begin accepting your payments immediately.

If you have not received new payment coupons from The Leader Mortgage Company before your next payment due date, you should forward you check to: **The Leader Mortgage Company**
Department 1716
Columbus, Ohio 43271-1716

You should be aware of the following information, which is set out in more detail in Section 6 of RESPA:

During the 60-day period following the effective date of the transfer of the loan servicing, a loan payment received by your old servicer before its due date may not be treated by the new loan servicer as late, and a late fee may not be imposed on you.

Section 6 RESPA gives you certain consumer rights. If you send a "qualified written request" to your loan servicer concerning the servicing of your loan, your servicer must provide you with a written notice of acknowledgement within 20 business days of receipt of your request. A "qualified written request" is a written correspondence other than notice on a payment coupon or other payment medium supplied by the servicer, which includes your name and account number and your reasons for the request. Not later than 60 business days after receiving your request, your servicer must make any appropriate corrections to your account and must provide you with a written notification regarding any dispute. During this 60-day period, your servicer may not provide information to a consumer reporting agency concerning any overdue payment related to such period or qualified written request.

Section 6 RESPA also provides for damages and costs for individuals or classes of individuals in circumstances where servicers are shown to have violated the requirements of that section. You should seek legal advice if you believe your rights have been violated.

Sincerely,

____

____

FHA LOAN DELIVERY CHECKLIST:

BORROWER'S NAME ______ PROGRAM ______

ORIGINATING LENDER ______ CONTACT ______

______ 1. PAYMENT HISTORY (IF APPLICABLE)

______ 2. ORIGINAL NOTE & **1 COPY**
______ NAME AFFIDAVIT, IF APPLICABLE - **1 COPY**

______ 3. MORTGAGE - **2 COPIES**
______ FHA TAX EXEMPT RIDER/ CONDO-PUD RIDER (IF APPLICABLE)- **2 COPIES**
______ INTERVENING ASSIGNMENT - **2 COPIES**

______ 4. FIRST PAYMENT LETTER

______ 5. HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**

______ 6. COPY TITLE COMMITMENT / **OR** SHORT FORM TITLE POLICY
______ TAX CERTIFICATION & 1 **COPY**

______ 7. INSURANCE POLICY / 1 YR. PROOF OF PAYMENT & **1 COPY**
______ MORTGAGEE CLAUSE LETTER, (HAZARD/FLOOD) - **2 COPIES**

______ 8. FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
______ FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT 1 **COPY**

______ 9. ORIGINAL BUYDOWN AGREEMENT, IF APPLICABLE & **1 COPY**
______ ORIGINAL REHAB AGREEMENT, IF APPLICABLE & **1 COPY**

______ 10. COPY OF W-9 FORM (PRIMARY BORROWER)

______ 11. FINAL TYPED LOAN APPLICATION

______ 12. HUD 92900A - DIRECT ENDORSEMENT APPROVAL

______ 13. SURVEY

______ 14. FINAL TRUTH-IN-LENDING

______ 15. ASSURANCE / WARRANTY OF COMPLETION, IF APPLICABLE

______ 16. TERMITE REPORT / SOIL TREATMENT GUARANTEE

______ 17. MIP TRANSMITTAL FORM

______ 18. LOAN DISCLOSURE NOTICES

______ 19. COMPLIANCE OR ERRORS & OMISSIONS AGREEMENT

______ 20. CREDIT UNDERWRITING PACKAGE (See detailed underwriting checklist)

VA LOAN DELIVERY CHECKLIST

BORROWER'S NAME____

PROGRAM_______________________

ORIGINATING LENDER______________________________________

________	*	FINAL COMPLIANCE APPROVAL LETTER
________	1.	PAYMENT HISTORY (IF APPLICABLE)
________	2.	ORIGINAL NOTE & **1 COPY** NAME AFFIDAVIT/IF TYPED NAME & SIGNED NAME NOT EXACT
________	3.	MORTGAGE - **2 COPIES** VA TAX EXEMPT RIDER/ CONDO-PUD RIDER (IF APPLICABLE) ASSIGNMENT OF MORTGAGE - **2 COPIES**
________	4.	FIRST PAYMENT LETTER
________	5.	FINAL HUD-I & CERTIFICATIONS - **2 COPIES** AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**
________	6.	COPY TITLE COMMITMENT/OR SHORT FORM POLICY TAX CERTIFICATION & 1 **COPY**
________	7.	INSURANCE POLICY/ BINDER / 1 YR. PROOF OF PAYMENT & **1 COPY** FLOOD INSURANCE/BINDER/ IF APPLICABLE 1 YR. PROOF OF PAYMENT & **1 COPY** MORTGAGE CLAUSE LETTER
________	8.	FEMA FLOOD CERTIFICATION & DISCLOSURES - & 2 **COPIES**
________	9.	PROOF OF PAID VA FUNDING FEE
________	10.	COPY OF W-9 FORM (PRIMARY BORROWER)
________	11.	FINAL TYPED LOAN APPLICATION / SIGNED & DATED BY ALL PARTIES
________	12.	SURVEY
________	13.	FINAL TRUTH-IN-LENDING
________	14.	LOAN DISCLOSURE NOTICES
________	15.	COMPLIANCE / ERRORS & OMMISSIONS AGREEMENT
________	16.	IF APPLICABLE, HOMEBUYER EDUCATION CERTIFICATE
________	17.	COPY OF UNDERWRITING CONDITIONS
________	18.	VA26-1866A – CERTIFICATE OF COMMITMENT VA26-1843 – VA CERTIFICATE OF REASONABLE VALUE, IF APPLICABLE
________	19.	VERIFICATION OF PAID VA FUNDING FEE
________	20.	TERMITE REPORT/SOIL TREATMENT GUARANTEE
________	21.	CREDIT UNDERWRITING PACKAGE (See detailed underwriting checklist)

CONVENTIONAL LOAN DELIVERY CHECKLIST

BORROWER NAME ____________________ LENDER ____________________

CONTACT ____________________ PROGRAM ____________________

- ____ * FINAL COMPLIANCE APPROVAL LETTER
- ____ 1. PAYMENT HISTORY (IF APPLICABLE)
- ____ 2. ORIGINAL NOTE & **1 COPY**
- ____ 3. MORTGAGE - **2 COPIES**
  - ____ CONVENTIONAL TAX EXEMPT RIDER/CONDO-PUD RIDER (IF APPLICABLE) **2 COPIES**
  - ____ INTERVENING ASSIGNMENT - **2 COPIES**
- ____ 4. FIRST PAYMENT LETTER
- ____ 5. HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**
- ____ 6. TITLE COMMITMENT & **1 COPY** (**NO FINAL** TITLE POLICIES)
  - ____ TAX CERTIFICATION & 1 **COPIES**
- ____ 7. INSURANCE POLICY / 1 YR. PROOF OF PAYMENT & **1 COPY**
  - ____ MORTGAGEE CLAUSE LETTER, IF APPLICABLE - **2 COPIES**
- ____ 8. FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
  - ____ FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT & **1 COPY**
  - ____ MORTGAGEE CLAUSE LETTER
- ____ 9. COPY OF BUYDOWN AGREEMENT IF APPLICABLE
- ____ 10. SIGNED MI CERTIFICATE/ EVIDENCE OF PAYMENT TO MI COMPANY & **1 COPY**
- ____ 11. COPY OF W-9 FORM (PRIMARY BORROWER ONLY)
- ____ 12. FINAL TYPED LOAN APPLICATION
- ____ 13. SURVEY
- ____ 14. FINAL TRUTH-IN-LENDING
- ____ 15. LOAN DISCLOSURE NOTICES
- ____ 16. ASSURANCE / WARRANTY OF COMPLETION
- ____ 17. TERMITE REPORT/ SOIL TREATMENT GUARANTEE
- ____ 18. COMPLIANCE / QUALITY CONTROL AGREEMENT
- ____ 19. COPIES OF UNDERWRITING CONDITIONS AT CLOSING
- ____ 20. CREDIT UNDERWRITING PACKAGE (See detailed underwriting checklist)

RHS LOAN DELIVERY CHECKLIST

BORROWER'S NAME______________________________ PROGRAM______________________

ORIGINATING LENDER____________________________ CONTACT______________________

_____ 1. FINAL COMPLIANCE APPROVAL LETTER

_____ 2. ORIGINAL NOTE & **COPY /** NAME AFFIDAVIT, IF APPLICABLE & **COPY**

_____ 3. MORTGAGE **2 CERTIFIED COPIES / ASSIGNMENT OF MORTGAGE 2 COPIES**
_____ RHS OR CONVENTIONAL TAX-EXEMPT, CONDO/PUD RIDERS **2 COPIES**

_____ 4. FIRST PAYMENT LETTER

_____ 5. FINAL HUD-1 & AGGREGATE ESCROW ANANLYSIS DISCLOSURE **2 COPIES**

_____ 6. TAX CERTIFICATION FORM & **COPY**

_____ 7. COPY OF TITLE COMMITMENT / OR SHORT FORM POLICY

_____ 8. ORIGINAL INSURANCE POLICY/1 YR PROOF OF PAYMENT & **1 COPY**

_____ 9. FLOOD CERTIFICATION & DISCLOSURES **COPY**
_____ FLOOD INSURANCE BINDER WITH 1 YR PROOF OF PAYMENT & **1 COPY**

_____ 10. ORIGINAL BUYDOWN AGREEMENT

_____ 11. RHS CONDITIONAL COMMITMENT(SIGNED) / LENDER CERTIFICATION
EXECUTED RHS REQUEST FOR SFH LOAN GUARANTY – RHS 1980-21
FANNIE MAE 1008 TRANSMITTAL SUMMARY

_____ 12. COPY OF W-9 FORM (PRIMARY BORROWER)

_____ 13. FINAL TYPED LOAN APPLICATION/ SIGNED/ CAIVRS # TO APPEAR ON SIG. LINE

_____ 14. SURVEY

_____ 15. FINAL TRUTH-IN-LENDING

_____ 16. LOAN DISCLOSURE NOTICES

_____ 17. COMPLIANCE/QUALITY CONTROL AGREEMENT

_____ 18. ASSURANCE / WARRANTY OF COMPLETION

_____ 19. TERMITE REPORT/ SOIL TREATMENT GUARANTEE

_____ 20. CREDIT UNDERWRITING PACKAGE (See detailed underwriting checklist)

_____ 21. RHS DOCUMENTS: THERMAL STANDARDS, CERTIFIED PLANS & SPECS, WARRANTY COVERAGE, CONSTRUCTION INSPECTION REPORT, WATER QUALITY CHECK, EVIDENCE OF INSPECTED WASTEWATER SYSTEM/DEFICIENCIES CORRECTED/PROPERTY SOUND & FUNCTIONALLY ADEQUATE, QUALIFIED FINAL INSPECITON. RHS NEW CONSTRUCTION: INSPECTION REPORT, FINAL INSPECTION, RHS 1924-25, CERTIFIED PLANS AND SPECS, BUILDER WARRANTY.

THE LEADER MORTGAGE COMPANY'S REQUIREMENTS FOR SUBMITTING PURCHASABLE MORTGAGE LOANS

- Your shippers, closers, title companies, branches, and any department that is responsible for the delivery and purchase of your Mortgage Loan should review the materials set forth in Chapter 8 of this Program Guide.

- The Master Servicer delivery address is:

  THE LEADER MORTGAGE COMPANY
  1015 EUCLID AVENUE
  CLEVELAND, OH 44115
  ATTN: OPERATIONS DEPARTMENT

- The entire closed Mortgage File should be reviewed for completeness and accuracy BEFORE shipping to the Master Servicer.

- **NOTE:** The Leader Mortgage Company will be purchasing all Mortgage Loans on an **AMORTIZED** loan balance basis.

- The participating Mortgage Lender information sheet should be completed (including wire instructions) and returned to the Master Servicer immediately.

- Wire instructions are computer coded. If your wire instructions change at any time, notify the Master Servicer funding department by fax. Funds will be wired to **ONE** bank.

- **NOTICE:** Due to amortized purchases, please advise borrower(s) not to make payments to the Master Servicer until notified.

- Are you a MERS member? MERS is an electronic registration system that tracks ownership and servicing rights of mortgage loans. If you are a member of MERS, the Master Servicer will accept your MOM documents. If you are not a member, close your loans with standard mortgage forms and assignment to the Master Servicer. If you are interested in learning more about MERS, contact Pat Bishop (216-937-6054) of the Master Servicer.

DELIVERTY INSTRUCTIONS IN CONNECTION WITH MORTGAGE FILE DELIVERY TO THE MASTER SERVICER

Please remember to submit your compliance package to the Authority for approval.

It is Mortgage Lender's responsibility to follow up with ADFA in order to get Mortgage Loans approved! ADFA will transmit Mortgage Loan approval to the Master Servicer.

IN ORDER TO EXPEDITE PURCHASES - All documents should be submitted with the correct number of copies, assembled in the order of the Delivery Checklist, and be acco-fastened together.

- A LENDER DISK IS **NOT** NEEDED FOR THE SINGLE FAMILY PROGRAM.

NOTES & SECURITY INSTRUMENTS

THE MORTGAGE LENDER MUST REVIEW THE MORTGAGE NOTE, MORTGAGE, AND ASSIGNMENT FOR ACCURACY AND COMPLETENESS PRIOR TO DELIVERY. INCORRECT COLLATERAL CAN LEAD TO LONG UNNECESSARY DELAYS!

IF MORTGAGE NOTES ARE SENT TO THE MASTER SERVICER BY YOUR WAREHOUSE BANK WITH A BAILEE LETTER, AND THE WAREHOUSE BANK REQUESTS A RETURN ACKNOWLEDGEMENT, IT MUST INCLUDE A COPY OF THE REQUESTED BAILEE LETTER AND A SELF ADDRESSED STAMPED ENVELOPE.

CLOSING INSTRUCTIONS

All Mortgage Loans are to be closed using the most recent 1-4 family FHA, VA, or Fannie Mae instruments at the time of closing. The proper addendum and riders should be attached. Government loans must be closed with a 4% late charge percentage, and conventional loans must be closed with a 5% late charge percentage.

A Tax-Exempt Financing Rider **MUST** be included with all loan types.

- USDARD MORTGAGE LOANS ARE TO BE CLOSED USING THE MOST CURRENT 1-4 FAMILY FANNIE MAE INSTRUMENTS WITH A 4% LATE CHARGE.

On USDARD Mortgage Loans only: Delete the verbiage in the "BORROWER'S RIGHT TO PREPAY" paragraph on the Mortgage Note, and replace with the following:

THE BORROWER HAS THE RIGHT TO PAY THE DEBT EVIDENCED BY THIS NOTE, IN WHOLE OR IN PART, WITHOUT CHARGE OR PENALTY, ON THE FIRST DAY OF THE MONTH. LENDER SHALL ACCEPT PREPAYMENT ON OTHER DAYS PROVIDED THAT BORROWER PAY INTEREST ON THE AMOUNT PREPAID FOR THE REMAINDER OF THE MONTH TO THE EXTENT REQUIRED BY LENDER AND PERMITTED BY REGULATIONS OF THE SECRETARY OF THE DEPARTMENT OF AGRICULTURE.

The verbiage is to be added to the signature page of the Note should there be sufficient space. Should an allonge (a piece of paper annexed to a negotiable instrument or promissory note, on which to write endorsements for which there is no room on the instrument itself) be needed, the change of verbiage and/or use of an allonge must be referenced on page 1 of the Note and initialed by the borrowers.

Use of allonges should be a **RARE** occurrence!

The legal, corporate name of the Master Servicer is **THE LEADER MORTGAGE COMPANY**. No abbreviations! The Master Servicer's full company name must be consistent throughout all documents, as must your own.

The borrower(s) name must be signed exactly as typed, or a notarized Name Affidavit will be required. Additions or deletions to the Note/Mortgage must be initialed by the borrower(s).

A new Mortgage Note will be required if:

- The original was stamped "certified to be true"
- The original contains handwritten loan information
- An incorrect form was used
- Errors were not corrected or if whiteout was used

If the original Mortgage Note needs to be returned for any reason, it will be sent by overnight mail at the Mortgage Lender's expense. When corrected, it is to be returned to the Master Servicer by overnight mail.

NOTE ENDORSEMENT AS IT SHOULD APPEAR ON THE MORTGAGE NOTE

PAY TO THE ORDER OF
THE LEADER MORTGAGE COMPANY
WITHOUT RECOURSE
(YOUR COMPANY NAME)
(SIGNATURE OF AUTHORIZED PERSON)
TYPED NAME AND TITLE

All Mortgage Note endorsements are to be dated the same as or later than the Mortgage Note date.
Allonges to the Mortgage Note (for the endorsement) **MUST** be approved by the Master Servicer or the

Mortgage Note will be returned at the Mortgage Lender's expense for endorsement.

If approved by the Master Servicer, an allonge must state the Borrower(s) name, property address, and Mortgage Loan amount.

Co-signers should sign the **Mortgage Note** only. Co-signers should not take title to the property (if they do, they become "borrowers" and are subject to all Single Family Program requirements).

ASSIGNMENT OF MORTGAGE

Separate Assignments are acceptable in recordable form:

- "Certified to be a true and correct copy of the original for recording".
- The legal description attached or in the body of the document.
- Complete and legible information.

Execution and notary dates must be the same as, or later than, the Mortgage Note and Mortgage dates.

MARGINAL ASSIGNMENTS ACCEPTABLE FOR USE ON SECURITY INSTRUMENTS:

FOR VALUABLE CONSIDERATION WE HEREBY SELL, ASSIGN, TRANSFER AND SET OVER UNTO **THE LEADER MORTGAGE COMPANY**, 1015 EUCLID AVENUE, CLEVELAND, OHIO 44115, ALL OUR RIGHTS, TITLE AND INTEREST IN AND TO THE WITHIN MORTGAGE AND SECURED BY SAME.

______________________________ (YOUR COMPANY NAME)
______________________________ (SIGNATURE OF AUTHORIZED PERSON)
______________________________ TYPED NAME AND TITLE

All Assignments, Riders, Addendums, and Mortgage copies are to be certified with an original signature.

CORRECTIONS TO A RECORDABLE DOCUMENT

Should a recordable document, such as the Mortgage, Assignment, Riders, or Addendum need correcting, this procedure must be followed:

FIRST, FAX THE MASTER SERVICER A LETTER OF INTENT STATING THE CORRECTION TO BE MADE, SPECIFYING TO WHICH DOCUMENT, AND YOUR INTENT TO HAVE THE DOCUMENT RE-RECORDED.

MASTER SERVICER MUST APPROVE ALL POWERS OF ATTORNEY

MORTGAGE RIDERS

- All FHA Condos must have a Condo Rider as part of the Mortgage.
- All PUDS must have a PUD Rider as part of the Mortgage.

TITLE INSURANCE

The Master Servicer will only accept title insurance coverage that follows FNMA guidelines.

TITLE COMMITMENT

Each title commitment should have a legal description and complete tax information. This should include parcel numbers, tax dollar amount, homestead exemptions and last tax period paid. New construction properties are to include the new parcel number if available.

Tax certification forms are required. Please make sure the tax certifications are **COMPLETE** and **ACCURATE**. If taxes paid are in question, this WILL hold up the purchase of your Mortgage Loan.

SETTLEMENT STATEMENT (HUD 1)

A copy of the FINAL HUD 1 Settlement Statement signed by the Mortgagor(s), with an initial aggregate escrow account statement meeting RESPA guidelines is required for funding.

- Interest credits are permitted through five days.

AGGREGATE ESCROW DISCLOSURE STATEMENT

The Master Servicer requires that all Mortgage Loans be closed using the aggregate method of calculation per RESPA. A copy of the disclosure must be given to the borrower(s) at closing.

All adjustments are to be shown on Line 1008 of the HUD per Federal regulation. The adjustment amount should always show as either -0- or negative. A **Two-Month** cushion must be calculated on all reserves, except for (MI) mortgage insurance.

SURVEY

The Master Servicer will purchase Mortgage Loans without a survey as long as the title commitment includes the following language;

When the final ALTA Loan Policy is issued, it will insure against loss or damage by reason of any violation, variation, encroachment or adverse circumstances affecting the title that would have been disclosed by an accurate survey. The term “encroachment” includes encroachments of existing improvements located on the land onto adjoining land, and encroachments onto the land of existing improvements located on adjoining land.

If no survey is included, the final title policy must have an ALTA #9 endorsement or its equivalent. Please remember to request this when ordering your title work.

W-9 FORM

An original W-9 form is required for social security verification on the primary borrower only.

GOODBYE LETTER

The Mortgage Lender should inform the borrower that its Mortgage Loan has been sold to the Master Servicer. Instruct the borrower(s) to send their applicable payments to the Master Servicer at the address listed below.

The Goodbye Letter must be included in the closed loan package and should contain the following information:

1.	Payment address:	The Leader Mortgage Company P.O. BOX 89421 Cleveland, OH 44101-6421
2.	Contacts:	Customer Communications Department 1-800-240-7890 or 800-580-6722
3.	Payment Date:	The first payment date due the Master Servicer. The last payment due the Mortgage Lender.
4.	Breakdown:	A complete breakdown of monthly payment.

NOTICE: Due to amortized purchases, please advise borrowers not to make payments to the Master Servicer until notified.

HAZARD AND FLOOD INSURANCE POLICIES

All Hazard and Flood Insurance policies are to be reviewed for accuracy before submission of the Mortgage Loan File. The following must be complete and correct:

1. The borrower(s) name, address, city, state and zip code must correspond to the information on the note and mortgage.

2. Legible Binders are accepted if a declaration page or policy is not available at closing.

3. Proof of payment is required. **POC** (paid outside of closing) is **NOT** acceptable.

4. Dwelling coverage requirements:
   a) Coverage must be equal to or greater than the loan amount
   b) "Replacement Cost Guaranteed" if clearly stated as such on the policy
   c) Coverage must equal the loan amount minus the site value

If an error is found, the Mortgage Lender must request a correction from the insurance company. A copy of this request must be attached to the policy. All corrected policies should be sent directly to the Master Servicer's Hazard Insurance Department.

The Loss Payable Endorsement or Mortgagee Clause can be in the name of The Leader Mortgage Company. If it is not, a letter to the insurance company changing the endorsement is to be attached to the policies.

The Mortgage Clause should read:

The Leader Mortgage Company, its successors and/or assigns,
as their interests may appear, Insurance Department, P.O. BOX 94573
Cleveland, Ohio 44101-4573

FLOOD CERTIFICATION

The FEMA standardized flood certification form is required for all Mortgage Loans. It must state the "life of the Mortgage Loan" and be "transferable". The flood certification must include:

1. The flood risk zone
2. The map and panel number for the property
3. The community number and status
4. The date of the map used for the determination

The appropriate disclosure must be signed by the borrower(s).

PROPERTY TAXES AND ASSESSMENTS

The Mortgage Lender is responsible for ascertaining the payment in full of all taxes and assessments due on properties prior to Mortgage Loan purchase**. If taxes were due, and were not paid, the Mortgage Lender will incur the expense of the penalty.**

THE MASTER SERVICER WILL NOT INCUR THE EXPENSE OF THE PENALTY IF THE MORTGAGE LENDER RETURNS FUNDS LEFT AT PURCHASE.

- If the county tax period opens within **60** days of the Mortgage Loan purchase date, the Master Servicer will leave a calculated tax reserve. If those reserves fall short of the full tax amount needed, please fax a written request for reimbursement including proof of payment. The Master

Servicer's Loan Set-Up Department will verify your request and make the disbursement.

You will be notified on the purchase advice as to the amount of escrow being left for a tax payment. **You must pay taxes if the Master Servicer leaves funds for you to pay.**

If the Mortgage Lender has paid a tax bill prior to the purchase of your Mortgage Loan, fax proof of payment to the attention of the Master Servicer Funding Department and your purchase will reflect the exact amount.

MONTHLY MORTGAGE INSURANCE

The Master Servicer REQUIRES all Mortgage Lenders to make monthly mortgage insurance payments prior to purchase of a Mortgage Loan. If the Mortgage Loan is purchased between the 16th and the 31st of the month, the Mortgage Lender will be responsible to disburse that next monthly insurance premium. If an adjustment is necessary, please contact the Master Servicer's Loan Set-Up Department for reimbursement. Their phone number is 216-937-6067; their fax number is 216-937-6307.

Examples:

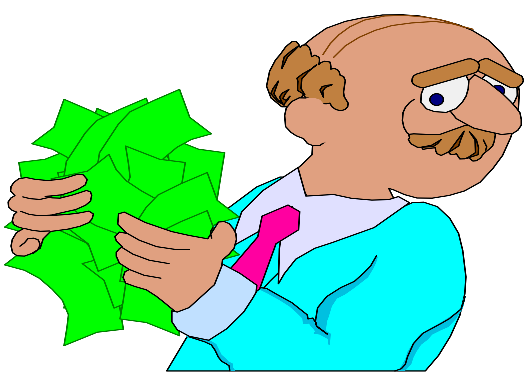
1) Loan purchased June 24.
First payment due Leader, August 1.
The Master Servicer Leader will leave the Mortgage Lender with one-month mortgage insurance.

2) Loan purchased July 12.
First payment due the Master Servicer August 1.
The Master Servicer will leave -0- monthly mortgage insurance.

LOAN DISCLOSURE NOTICES

* Notice of Assignment, Sale, Transfer of Servicing	-ALL LOANS
* Servicing Disclosure	-ALL LOANS
* Interest Rate & Disclosure	-VA LOANS ONLY

LOAN PURCHASE INFORMATION



I SUBMITTED MY MORTGAGE FILE TO **LEADER**, RECEIVED **ADFA** APPROVAL, AND HAD MY FUNDS WIRED!

Mortgage Loans are purchased DAILY.

Should there be a legal holiday, Mortgage Loans will be purchased on the next business day. On the scheduled Mortgage Loan purchase date, the Mortgage Lender will receive a faxed purchase advice, detailing the breakdown of your purchased Mortgage Loans.

Escrow reserves and buydown funds will be netted out of your Mortgage Loan purchase. (Please make sure a copy of the buydown agreement is included in the borrower's Mortgage File).

Other fees netted: Transfer / Tax Service / Processing (for 2nds only).

When Mortgage Loans are purchased, the Master Servicer will determine the principal balance, current escrow reserves, and buydown funds (if applicable), based on an **AMORTIZED CALCULATION.**

The Master Servicer will purchase Mortgage Loans based on a non-delinquent, normal payment, normal escrow disbursement status. **All Mortgage Files must include a payment history. If there is any special activity, or reversals, please explain and highlight this on the history.**

THE MASTER SERVICER WILL PURCHASE MORTGAGE LOANS AS FOLLOWS:

> IF THE PURCHASE DATE IS THE 1ST THROUGH THE 15TH, THE MASTER SERVICER WILL PURCHASE THE MORTGAGE LOAN DUE WITH THE VERY NEXT PAYMENT DATE.

Example:

1) If the purchase date is June 1st through June 15th; the Master Servicer will purchase the Mortgage Loan with a first payment date due the Master Servicer of July 1.

> IF THE PURCHASE DATE IS THE 16TH THROUGH THE 31ST, THE MASTER SERVICER WILL PURCHASE THE MORTGAGE LOAN DUE FOR THE 2nd PAYMENT DATE FOLLOWING THE PURCHASE DATE.

Example:

2) Purchase date is June 16th through June 30th; the Master Servicer will purchase the Mortgage Loan with a first payment date due the Master Servicer of August 1.

After your loan is purchased, should you have a payment, which needs to be forward to the Master Servicer, or need a payment forwarded to you, please contact the Loan Set-Up Department of the Master Servicer:

Phone: 216-937-6067
Fax: 216-937-6088

DPA LOAN INFORMATION

- DPA Loan Note should be endorsed to the Authority.
- DPA Loan Second Mortgage should be assigned to the Authority.
- Include a Truth-In-Lending Disclosure for DPA Loan.
- DPA Loans must have a ten-year term.
- Include certificate of completion for homebuyer education.
- Make sure title policy and hazard policy reflect DPA Loan.
- Marital Status on Second Mortgage is required.

LOAN REVIEW / PURCHASE EXCEPTIONS

A Master Servicer operations representative will contact Mortgage Lenders by telephone or fax regarding Mortgage Loans that have exceptions and are unacceptable for purchase. The Master Servicer must receive any corrected exceptions in order for your Mortgage Loan to be cleared for purchase.

COMPLIANCE / ERRORS & OMISSIONS AGREEMENT

The Master Servicer requires a Compliance or Errors and Omissions Agreement.

FINAL DOCUMENTS

Final documents are **NOT** to be included in the Mortgage File sent for review and purchase - they are to be delivered using the Final Document Delivery Checklist Form. Please provide a self-addressed, stamped envelope if an acknowledgement is required.

The Mortgage Lender will incur the fees for any special request for documents already forwarded to our custodial bank. Final documents are to be delivered within 60 days. Documents not received within 90 days after Mortgage Loan purchase will be subject to a late delivery charge.

CREDIT UNDERWRITING THE LOAN

It is important to remember, that while the Master Servicer does not underwrite or re-underwrite your Mortgage Loans, audits may occur. The audits can originate from FHA, VA, Fannie Mae, Freddie Mac, Guaranteed Rural Housing or by the Master Servicer. It is vital to make sure that sound underwriting decisions are made and the Mortgage Loan file contains all necessary documentation necessary to support the underwriting decision. It is also important to make sure all Single Family Program guidelines are followed, and to especially remember that when using any Automated Underwriting Systems (DU or LP), Data Integrity is crucial.

MERS

The Master Servicer is a member of Mortgage Electronic Reservation System (MERS). MERS tracks the ownership and servicing rights of Mortgage Loans. If you are a member of MERS, the Master Servicer will accept your MERS Original Mortgagee (MOM) documents. If you are not a member, you will need to close your Mortgage Loan with customary mortgage forms and assignments.

When you are MERS ready and will be shipping your first MOM Mortgage Loan, the Master Servicer will need your ORG ID number and the name and phone number of a contact person. A MERS Contact Sheet is provided for your use. The Master Servicer's system needs to be updated with your ID number. Lack of notification may result in a purchase delay.

If MOM documents have been used, please do not include copies of any assignments in the Mortgage File that is shipped to the Master Servicer for purchase as they are unnecessary. If you are a member using a customary mortgage form but will be registering the Mortgage Loan with MERS, an assignment to MERS needs to be included in the Mortgage File.

The Master Servicer requires that the Beneficial and Servicing Rights be transferred to it within 10 business days of Mortgage Loan purchase.

If you have any questions, concerns or comments, please contact Pat Bishop with the Master Servicer at 216.937.6054 or by email at pbishop@tlmc.cc.

THE LEADER MORTGAGE COMPANY
FROM THE DESK OF PAT BISHOP
216-937-6054 PH
216-696-2508 FAX
PBISHOP@TLMC.CC

MERS CONTACT INFORMATION

COMPANY NAME: ______________________________

ORG ID # ______________________________

CONTACT NAME: ______________________________

PHONE NUMBER: ______________________________

FAX NUMBER: ______________________________

E-MAIL ADDRESS: ______________________________

SUPERVISOR: ______________________________
If not the same as above

PHONE NUMBER: ______________________________

FAX NUMBER: ______________________________

E-MAIL ADDRESS: ______________________________

Please sign and date:

____

Signature **Date**

FINAL DOCUMENT DELIVERY

ATTN: DOCUMENT CONTROL DEPARTMENT

PHONE (216) 696-8000

Ext. # 2303, 2285, 2288

FAX (216) 696-1927

E-MAIL: documentcontrol@tlmc.cc

To complete the captioned Mortgage Loan File, we submit the following documents, within 90 days of purchase:

Borrower's Name: ______________________________ **LMC#** __________

Property Address: ______________________________ LoanType: __________

______ Original MIC/LGC

______ Original Recorded Mortgage

______ Intervening Assignment / Marginal Assignment

______ Condo/PUD Rehab/2-4 Family Riders, if Applicable

______ Original Title Policy

______ Other: ______________________________

For Pay Histories fax request to (216) 937-8814

Originating Lender's Name: ______________________________

Address: ______________________________

Phone Number: ______________________________

Fax Number: ______________________________

Contact Person: ______________________________

E-Mail Address: ______________________________

The Leader Mortgage Company
Arkansas Mortgage Lender Participation Information
Single Family Program

Mortgage Lender Name: ______________________________
Mailing Address: ______________________________

____

Main Phone Number: ______________________________

	Contact	Phone
Administrative:		
Shipping Super:		
Shipping Staff:		
Shipping Staff:		
Final Documents:		
Fax # for above:		

Wire Instructions:
ABA Number: ______________________________
Account Number: ______________________________
Bank Name: ______________________________

Purchase Advices faxed to: ______________________________
Fax Number for Purchase Advices: ______________________________

The Leader Mortgage Company
Please fax to 216-937-6084
Attn: Lou Caresani
Please Complete All Information

QUESTIONNAIRE FOR FILING PROPOSED RULES AND REGULATIONS
WITH THE ARKANSAS LEGISLATIVE COUNCIL AND JOINT INTERIM COMMITTEE

DEPARTMENT/AGENCY Arkansas Development Finance Authority
DIVISION Executive
DIVISION DIRECTOR Mac Dodson, President
CONTACT PERSON Patrick Patton
ADDRESS 423 Main Street, Suite 500, Little Rock, AR 72201
PHONE NO. (501) 682-5902 FAX NO. (501) 682-5939

INSTRUCTIONS

A. Please make copies of this form for future use.
B. Please answer each question completely using layman terms. You may use additional sheets, if necessary.
C. If you have a method of indexing your rules, please give the proposed citation after "Short Title of this Rule" below.
D. Submit two (2) copies of your proposed rule and mail or deliver to:

Donna K. Davis
Subcommittee on Administrative Rules and Regulations
Arkansas Legislative Council
Bureau of Legislative Research
Room 315, State Capitol
Little Rock, AR 72201

****

1. What is the short title of this rule?

ADFA's HomeToOwn Program Guide

2. What is the subject of the proposed rule?

Policies outlining the guidelines for administering the ADFA HomeToOwn Program.

3. Is this rule required to comply with federal statute or regulations? Yes______ No X

If yes, please provide the federal regulation and/or statute citation.

4. Was this rule filed under the emergency provisions of the Administrative Procedure Act? Yes______ No X

If yes, what is the effective date of the emergency rule?

When does the emergency rule expire?

Will this emergency rule be promulgated under the regular provisions of the Administrative Procedure Act? Yes____No___

5. Is this a new rule? Yes______ No X

Does this repeal an existing rule? Yes______ No__X____
If yes, please provide a copy of the repealed rule.

Is this an amendment to an existing rule? **YES** If yes, please attach a markup showing the changes in the existing rule and a summary of the substantive changes.

6. What state law grants the authority for this proposed rule? If codified, please give Arkansas Code citation.

   Ark. Code Ann. § 15-5-101 sets forth the rights, powers, privileges and duties of the Authority.

7. What is the purpose of this proposed rule? Why is it necessary?

   The purpose of the HomeToOwn Program Guide is to provide an overview of ADFA Policies and Procedures as they pertain to the HomeToOwn Program.

8. Will a public hearing be held on this proposed rule? Yes__X____ No________ If yes, please give the date, time and place of the public hearing?

   August 29, 2003; 10:00 a.m.; ADFA Fifth Floor Conference Room

9. When does the public comment period expire? August 29, 2003

10. What is the proposed effective date of this proposed rule?

    September 8, 2003, if no changes are made after the public hearing

11. Do you expect this rule to be controversial? Yes______ No___X____ If yes, please explain.

12. Please give the names of persons, groups, or organization's which you expect to comment on these rules? Please provide their position (for or against) if known.

    None

PLEASE ANSWER ALL QUESTIONS COMPLETELY

DEPARTMENT Arkansas Development Finance Authority
DIVISION Executive
PERSON COMPLETING THIS STATEMENT Patrick Patton
TELEPHONE NO. (501) 682-5902 FAX NO. (501) 682-3350

FINANCIAL IMPACT STATEMENT

To comply with Act 1104 of 1995, please complete the following Financial Impact Statement and file with the questionnaire and proposed rules.

SHORT TITLE OF THIS RULE ADFA's HomeToOwn Program Guide

1. Does this proposed, amended, or repealed rule or regulation have a financial impact? Yes_______ No X

2. If you believe that the development of a financial impact statement is so speculative as to be cost prohibited, please explain.

   N/A

3. If the purpose of this rule or regulation is to implement a federal rule or regulation, please give the incremental cost for implementing the regulation.

2001-02 Fiscal Year		2002-03 Fiscal Year	
General Revenue	N/A	General Revenue	N/A
Federal Funds		Federal Funds	
Cash Funds		Cash Funds	
Special Revenue		Special Revenue	
Other		Other	
Total		Total	

4. What is the total estimated cost by fiscal year to any party subject to the proposed, amended, or repealed rule or regulation?

2001-02 Fiscal Year	2002-03 Fiscal Year
None	None

5. What is the total estimated cost by fiscal year to the agency to implement this regulation?

2001-02 Fiscal Year	2002-03 Fiscal Year
None	None